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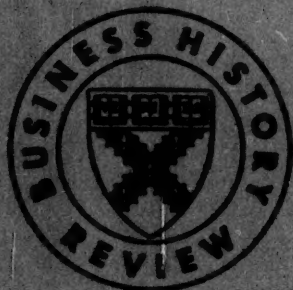
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By Sidney Fine

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## The Ford Motor Company and the N.R.A.

*There was something almost awesome, and perhaps typically American, in Henry Ford's defiance of the N.R.A. Ford staunchly maintained that the company he had founded and still ruled in absolute fashion was adhering to the law and had, in fact, anticipated many of its provisions. Critics focused their attack upon the company's labor practices, which clearly foreshadowed a coming strife, but no case was brought to court and Ford's fiercely individualistic attitude was never successfully constrained. The larger issue is not whether Ford did or did not comply, but rather what, in this period of profound social change, was to be the "fundamental American idea."*

Perhaps no company during the two years the National Industrial Recovery Act was in effect (1933-1935) received as much publicity or was the object of as much concern on the part of its competitors and of the federal government as the Ford Motor Company.<sup>1</sup> To a considerable degree, the attention focused upon it stemmed from the fact that although the N.I.R.A., in theory, contemplated the partnership of industry, government, and labor in the stabilization of the economy, the Ford Motor Company refused to sign the code its industry adopted, failed to supply the federal government with proper certification that it would comply with the code, and successfully resisted the inroads of unionism in its plants.

In approving the N.I.R.A. on June 16, 1933, President Roosevelt stated that "History probably will record the . . . Act as the most important and far-reaching legislation ever enacted by the American Congress." In addition to authorizing the expenditure of \$3.3 billion for public works, the N.I.R.A. sought to stimulate re-employment by a shorter work week and to augment purchasing power and production by the increase of wages and payrolls. Quite apart from these immediate goals, the statute pointed, in the long run, to the stabilization of economic activity through the cooperation of

<sup>1</sup> The preparation of this article was facilitated by grants to the author from the John Simon Guggenheim Memorial Foundation and the Horace H. Rackham School of Graduate Studies of the University of Michigan.

government, business, and labor. To this end, businessmen, through their trade associations, were permitted to control "destructive" competition free, on the whole, from the restraints of the antitrust legislation. To balance this concession to the business community, the right of employees to organize and to engage in collective bargaining was proclaimed.

The N.I.R.A. permitted trade or industrial associations to draw up codes of fair competition whose provisions were to become "the standards of fair competition" for the trade or industry concerned when the codes had been approved by the President. On his own initiative or on complaint, the President could himself prescribe a code for a trade or industry for which a code had not already been approved. The President was also authorized to enter into agreements with or to approve voluntary agreements between and among persons engaged in a trade or industry, trade or industrial associations, or labor organizations. Moreover, when the President found that "destructive wage or price cutting" or other practices contrary to the purposes of the act were being carried on in any trade or industry, he could license the business enterprises concerned in order to make a code or agreement effective, and no person in that line of endeavor could then operate without a license. The President was permitted to suspend or revoke a license for violation of its terms.

Every code, agreement, and license approved or issued under the statute had to stipulate, according to the famous Section 7(a), that employees were to have the right to organize and bargain collectively through representatives of their own choosing and were to be free from employer "interference, restraint, or coercion" in designating such representatives or in self-organization; that no employee and no one seeking employment was to be required as a condition of employment to join a company union or to refrain from joining, organizing, or assisting a labor organization; and that employers were to comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment approved or prescribed by the President.

Despite the drastic character of many of its provisions, the N.I.R.A. was not without ties with earlier programs and ideas. The policy of combating unemployment by shortening the hours of labor was, after all, traditional with organized labor. The guarantee of the right of collective bargaining in the N.I.R.A. was modeled after Section 2 of the Railway Labor Act of 1926 and the policy declaration of

the Norris-LaGuardia Act of 1932. The Federal Trade Commission and the Department of Commerce had for some years prior to 1933 been assisting trade associations in drawing up codes of fair competition, and the United States Chamber of Commerce during the depression had sought legislative sanction for codes which would combat destructive wage and price cutting.

On the other hand, there is no question that the N.I.R.A. not only expanded enormously the concept of interstate commerce but that it also permitted the federal government to play a more prominent role than it previously had in the allocation of resources, the organization of production, the determination of wages and hours, and the working out of relations between labor and management. Unusual discretionary power was, moreover, delegated in the statute by the Congress to the President, and the licensing provision of the act gave the chief executive "the power of life or death over business enterprises." It is thus not altogether surprising that the N.I.R.A. was ultimately declared unconstitutional by the United States Supreme Court in a 9 to 0 decision.

It must, however, be noted that the N.I.R.A. made possible alternative lines of action and that the powers it granted were not all used. The National Recovery Administration, as it turned out, relied entirely on the initiative of trade and industrial associations in the formulation of codes, and the drastic licensing clause was never invoked. The codes, to be sure, included many provisions which were objectionable to believers in a competitive economy, but, generally speaking, these were provisions that the trade associations themselves wished to have included in lieu of more objectionable practices proposed by the N.R.A.<sup>2</sup>

When the N.I.R.A. became law, the Ford Motor Company was but thirty years old.<sup>3</sup> Capitalized originally at a nominal figure of \$150,000, but with only \$28,000 of this sum in the form of cash, the company, without drawing on any outside source for additional funds, had become one of the nation's greatest business concerns, with total assets in 1929 of \$925,612,419. It was being strongly challenged by the competition of General Motors and Chrysler by

<sup>2</sup> For the origin, character, and administrative history of the N.I.R.A., see Leverett S. Lyon *et al.*, *The National Recovery Administration* (Washington, 1935); Lyon *et al.*, *Government and Economic Life* (2 vols.; Washington, 1939-1940), Vol. II, pp. 1,035-1,061; Charles F. Roos, *NRA Economic Planning* (Bloomington, Ind., 1937); Raymond Moley, *After Seven Years* (New York, 1939), pp. 184-191; and Irving Bernstein, *The New Deal Collective Bargaining Policy* (Berkeley, 1950), pp. 20-39.

<sup>3</sup> For the history of the Ford Motor Co. and Henry Ford before 1933, see Allan Nevins and Frank Ernest Hill, *Ford. The Times, the Man, the Company* (New York, 1954); and Nevins and Hill, *Ford: Expansion and Challenge, 1915-1933* (New York, 1957).

the end of the 1920's, but in 1930 Ford was still responsible for 40.33 per cent of the new passenger car registrations in the United States. The depression years of the Hoover administration, however, hit the Ford Motor Company more severely than its two great rivals. Its share of new passenger car registrations dropped to 17.54 per cent during the first quarter of 1933, and whereas the company had realized a total net profit after taxes of over \$131 million in 1929 and 1930, it suffered a total net loss of over \$107 million in 1931 and 1932.<sup>4</sup>

For all practical purposes, the Ford Motor Company, as far as the general public was concerned, was indistinguishable from the man who had given the company his name. For almost two decades before 1933, no other business figure loomed so large in the public view as Henry Ford. It was Ford who had successfully fought the Association of Licensed Automobile Manufacturers in the great Selden patent suit, Ford who had become the world symbol of mass production, Ford who had proclaimed the five-dollar day. Always one to do the unexpected, Ford had reacted to the onset of the depression in 1929 by raising wages and expanding plant construction. "If every one will attend to his own work," he had declared, "the future is secure."<sup>5</sup> The immediate future was far from secure, however, and the Ford Motor Company was soon feeling the full impact of the business downturn.

The depression persuaded many businessmen that measures like the N.I.R.A. were necessary to revive the economy, but there was little reason in 1933 to expect that Ford would view with favor legislation which called for the stabilization of the economy through the cooperation of government, business, and labor. Ford, it had already been demonstrated, was simply not the sort of person who could work well in harness. As he later said, he had decided at the beginning of the century, after his experience as superintendent of the Detroit Automobile Company, "never again to put myself under orders," and then in 1919 he had bought out the minority stockholders in the Ford Motor Company and had thus gained total

<sup>4</sup> Nevins and Hill, *Ford. The Times, the Man, the Company*, pp. 237-238; Federal Trade Commission, *Report on Motor Vehicle Industry*, 76th Cong., 1st Sess., House Doc. No. 468 (Washington, 1939), pp. 649, 657; *Ward's 1939 Automotive Year Book*, p. 36. Although the company was originally capitalized at \$150,000, only \$100,000 in stock was actually issued. The statistics given for Ford for the 1920's and 1930's include the Lincoln Motor Co. The average number of payroll employees at the Rouge plant dropped from 101,069 in 1929 to 32,514 in 1933, and the average weekly rate of wages of these employees from \$36.97 to \$23.58. The minimum daily wage paid by Ford was cut from \$7.00 to \$4.00 during the same years. F.T.C., *Report on Motor Vehicle Industry*, p. 668; Nevins and Hill, *Ford: Expansion and Challenge*, p. 588.

<sup>5</sup> Nevins and Hill, *Ford: Expansion and Challenge*, pp. 529-530, 573-575, 598-600.

control of the concern. Rugged individualist that he was, Ford was hostile to organization and had stated his belief that "People are never so likely to be wrong as when they are organized."<sup>6</sup>

A believer in self-help and self-reliance, Ford did not look to government to solve the economic problems of the nation even in a great depression. It was unlikely, moreover, that one who had fought the A.L.A.M. in the Selden patent suit and who had refused to join his fellow automobile manufacturers in the National Automobile Chamber of Commerce would look kindly on legislation that encouraged the activities of trade associations. Above all, Ford was almost certain to oppose legislative and administrative actions which might lead to the establishment of unionism in his plants. Ford had, as a matter of fact, attained fame for his farsighted wage and hour policies, and certainly in 1914 and for a few years thereafter, the Ford Motor Company had "the most advanced labor policy in the world"; but Ford did not believe that organized labor should play any part in the shaping of that policy. In his view, labor unions were simply "predatory" organizations and were "part of the exploitation scheme."<sup>7</sup> To be sure, prior to 1933, unionism was conspicuous in the Ford plants and in the auto industry in general only because of its absence, but, encouraged by Section 7(a), the American Federation of Labor soon began to establish federal locals in the plants of the automobile industry. The A.F. of L. failed to make any impression on Ford's great Rouge plant, but, as we shall see, A.F. of L. federal locals sought to bargain with the Ford Motor Company after strikes broke out in September, 1933, in the Ford assembly plants in Chester, Pennsylvania, and Edgewater, New Jersey.

## II

Although the National Automobile Chamber of Commerce, the trade association of the automobile manufacturers, had ascertained in off-the-record talks with government officials even before the N.I.R.A. became law that the non-member Ford Motor Company would have to abide by a code of fair competition drawn up by the

<sup>6</sup> Henry Ford, in collaboration with Samuel Crowther, *My Life and Work* (Garden City, New York, 1922), p. 36; Nevins and Hill, *Ford: Expansion and Challenge*, pp. 105-113, 536.

<sup>7</sup> Nevins and Hill, *Ford. The Times, the Man, the Company*, pp. 522-567; Nevins and Hill, *Ford: Expansion and Challenge*, pp. 353, 493-494, 535-539. For the change in Ford's labor policies after 1921, see Nevins and Hill, *Ford: Expansion and Challenge*, pp. 349-354, 508-540, 589-591. Nevins and Hill point out that by 1923 "the Ford factory . . . became just like any other factory," but they insist that "working conditions . . . remained good until the end of the nineteen-thirties."



industry even if it was not a party to it,<sup>8</sup> the organization preferred that any decision as regards a code should be made in conjunction with Ford. Taking advantage of the fact that the Lincoln Motor Company was a member of the N.A.C.C., President Alvan Macauley appointed Edsel Ford, Lincoln's president, to the committee he established late in May, 1933, with Alfred P. Sloan, Jr., as chairman, to consider the impending recovery bill in its relationship to the auto industry.<sup>9</sup>

Following the report of the Sloan committee to the June 15 meeting of the N.A.C.C., the auto manufacturers decided to establish a code committee to analyze the N.I.R.A. and to determine if a code was necessary. Macauley thought that the Ford Motor Company should be represented on this committee also, and Edsel Ford agreed on June 21 that Herman L. Moekle, who was in charge of Ford's auditing department and whose name the N.A.C.C. had suggested, could accept this assignment. The committee decided at its first meeting on June 22 to work on the terms of a suitable code for the industry rather than to attempt to decide whether the auto manufacturers should actually submit a code.<sup>10</sup>

After several sessions the committee agreed on the provisions of a code to be submitted for the consideration of the N.A.C.C. members on July 25 and the N.A.C.C. directors the next day. The minutes of the code committee's meetings do not tell us precisely what role Moekle, who was soon joined by Louis Colombo, a Ford attorney, played in the committee's deliberations.<sup>11</sup> Alfred Reeves, the vice president and general manager of the N.A.C.C., wrote Edsel on July 21 that the two men had "contributed invaluable help," but since the N.A.C.C. wished Ford to sign the code, it was natural that Reeves should take this line. As Moekle later recalled his part in these events, his objective was simply to keep the industry "as free as possible of controls," which coincided with the view of the other members of the committee.<sup>12</sup>

<sup>8</sup> Pyke Johnson, "An Analysis of the Position of the N.A.C.C. under the National Recovery Act," May 23, 1933, Roy Chapin Papers, Michigan Historical Collections; P. Johnson to Chapin, June 2, 1933, and attached report of interview with General Hugh S. Johnson, Chapin Papers.

<sup>9</sup> Chapin to P. Johnson, May 25, 1933, Alfred Reeves to Sloan *et al.*, June 8, 1933, Chapin Papers; N.A.C.C. General Bulletin No. G-1603, May 27, 1933, O. P. Pearson Papers (in Mr. Pearson's possession).

<sup>10</sup> Reeves to E. Ford, June 12, 1933, Reeves to H. Ford, June 15, 1933, E. Ford to Reeves, June 21, 1933, Accession 203, Box 3, Ford Archives; Minutes, Meeting, June 22, Committee on N.I.R.A., N.A.C.C., Acc. 203, Box 6, Ford Archives.

<sup>11</sup> There are copies of the minutes of the June 22 meeting in Acc. 203, Box 6, Ford Archives, of the June 29 meeting in Acc. 203, Box 13, Ford Archives, and of the July 11 meeting in the Pearson Papers.

<sup>12</sup> Reeves to E. Ford, July 21, 1933, Pearson Papers; "The Reminiscences of Mr. Herman L. Moekle" (Mar., 1955), Vol. II, pp. 148-150, Ford Archives. Actually, as

The participation of the Ford Motor Company in the code-making process ceased when the code committee on July 25 submitted its draft to the N.A.C.C. Ford did not join with the N.A.C.C. in presenting the code to General Hugh S. Johnson, the Administrator for Industrial Recovery, and did not participate in the conferences on the code that preceded the public hearing, in the public hearing itself, or in the post-hearing conferences that led to the President's approval of the code on August 26. The obstacle to any further Ford cooperation was clearly Henry Ford himself. Moekle and Colombo recommended acceptance of the code as "the best kind of agreement that could come out of that law," and according to Ernest G. Liebold, Ford's business secretary, "Everyone around, including Edsel," thought the company should sign.<sup>13</sup>

Anxious to enlist Henry Ford's support for the N.I.R.A., Johnson had decided shortly after the passage of the act to discuss the subject with Ford in person. "I want to talk to you about the whole show," he told Henry on the telephone on June 22. Two days later, Johnson secretly flew to Dearborn and explained to Henry and Edsel the purposes and character of the N.I.R.A.<sup>14</sup> Johnson came away from the conference thinking that Henry Ford would support the N.I.R.A. "to the limit and even beyond." The reason for Johnson's erroneous estimate of the situation is clear. In explaining the act to Henry, he had apparently emphasized its immediate objectives, the re-employment of labor through the reduction of working hours and the stimulation of purchasing power through the fixing of minimum-wage levels. Ford could easily endorse these objectives since he quite properly regarded himself as a pioneer in this area. "It was only what I had been practicing all my life," he later wrote to Charles Edison. It was thus possible for Ford on July 15 to praise General Johnson and to state that "what he [Johnson] wants is not Government control of business; he wants the best business principles of the best business men to become the rules of all business."

Johnson obviously did not stress in his conversation with Ford the possible implications of Section 7(a) and the likelihood that the codes of fair competition that the act contemplated would in-

Moekle reported to B. J. Craig after the code committee's first meeting, "There was a strong sentiment in the committee that no code at all should be filed, if such a thing is possible." Memorandum for B. J. Craig, June 23, 1933, Acc. 203, Box 3, Ford Archives.

<sup>13</sup> "Reminiscences of Moekle," Vol. II, pp. 149-151; "The Reminiscences of E. G. Liebold" (Jan., 1953), p. 1,406, Ford Archives.

<sup>14</sup> The *Detroit News* discovered that Johnson had been in Dearborn, but William J. Cameron persuaded the paper not to publish the fact. Hugh Johnson correspondence folder, Acc. 52, Box 8, Ford Archives.

clude price and production controls. It is no doubt for this reason that Liebold later remarked, "I don't think at that time Mr. Ford knew what the NRA was," and that William J. Cameron, Ford's spokesman, doubted that Ford "understood the full drift of it."<sup>15</sup>

As the time for the final approval of the auto code approached, Ford began to have second thoughts about the N.I.R.A. He undoubtedly learned through Moekle of the N.A.C.C.'s fears concerning the threat which 7(a) posed to the open shop and perhaps also became aware of the restraints on competition included in the codes which the various industries of the nation were submitting. Thus, when Josephus Daniels urged Ford to sign the code, Cameron replied: "There can be no doubt . . . that proposals are being made in the name of recovery that have nothing to do with recovery, and that seriously affect the fundamental American idea. We doubt that it is necessary to scrap America in order to achieve recovery."<sup>16</sup>

In particular, Ford, like the other auto manufacturers, was anxious not to "scrap" the open shop that prevailed in his plants, and he feared that Section 7(a) would have precisely this effect. His secretary, Frank Campsall, replied to a complaint about Ford's refusal to sign the code that, quite apart from its recovery features, the N.I.R.A. "contains a section which in effect makes obligatory the unionization of industry." From Ford's point of view, collective bargaining, in Cameron's phrasing, was simply "a smooth sounding name for the labor racketeer." Ford comforted himself with the thought that he made better bargains for his men than any labor organizer could. "We have bargained *for* our men; we have never been compelled to bargain *against* them, nor they against us."<sup>17</sup>

Even more important than the threat of unionization, Ford stated in explaining his refusal to sign the code, was the extensive government control of business which he saw implicit in the N.I.R.A. The Ford Motor Company, he informed the public on June 25, had achieved "industrial decencies" without "regulation or compulsion" or "'gentlemen's agreements.'" Under the N.I.R.A, however, Ford insisted a few months later, "every detail of our operation can be

<sup>15</sup> Hugh Johnson correspondence folder, Acc. 52, Box 8, Ford Archives; H. Ford to Charles Edison, Oct. 6, 1933, Acc. 52, Box 8, Ford Archives; drafts of Cameron statements, Acc. 52, Box 8, Ford Archives; "Reminiscences of Liebold," p. 1,407, Ford Archives; "Third Interview with Mr. W. J. Cameron by Owen Bombard on June 9, 1952," p. 149, Ford Archives; Johnson, *The Blue Eagle from Egg to Earth* (Garden City, New York, 1935), pp. 235-236; *Detroit Free Press*, July 16, 1933. Cf. the version of the conference in Harry Bennett, *We Never Called Him Henry* (New York, 1951), p. 96.

<sup>16</sup> Cameron to Daniels, Aug. 21, 1933, Acc. 285, Box 1550, Ford Archives.

<sup>17</sup> Campsall to Augustus L. Richards, Aug. 10, 1933, Acc. 52, Box 8, Ford Archives; Cameron drafts in Acc. 52, Box 8, Ford Archives; *New York Times*, Aug. 6, 1933.

placed under control of a committee one-third of whom are politicians and one-third of whom are labor leaders." If he signed the code, Moekle recalled, "He felt it would be giving away the control of his own business. . . ." <sup>18</sup>

Ford, as a matter of fact, was too much alarmed at the threat the N.I.R.A. posed to his business. Although the statute, as noted, had drastic implications and although many of the codes included provisions which were obnoxious to Ford, it was possible, as the N.A.C.C. demonstrated, to have a code which ignored price and production policies entirely and confined itself to the subject of wages and hours and the mandatory provisions of Section 7(a). Even with respect to the latter, the N.A.C.C. was able to gain approval in its code for a statement that "employers in this industry may exercise their right to select, retain, or advance employees on the basis of individual merit, without regard to their membership or nonmembership in any organization." <sup>19</sup> Also, as Ford must have known, he could not escape the terms of his industry's code by refusing to sign the document. Once the President approved the code, Ford was obligated by the N.I.R.A. to observe its provisions whether he liked them or not. By refusing to sign, Ford merely indicated his displeasure with the statute and placed himself in a more advantageous position to challenge it in court or in the press.

Hearing that the N.A.C.C. approval of a code was being held up by the organization's fear of Section 7(a) and by Ford's apparent unwillingness to sign the code, Johnson flew to Detroit on July 27 to talk with the N.A.C.C.'s directors. While in Detroit, he spoke to Edsel on the telephone and, in his usual pungent manner, asked him "what the hell was the matter." When Edsel replied that the company did not like Section 7(a), Johnson sought to de-emphasize the importance of this part of the act, and he informed Edsel, as he was to inform the N.A.C.C. directors, that Section 7(a) was not inconsistent with the maintenance of the open shop. Edsel apparently pressed Johnson for a written promise that the section would not be applied to the Ford Motor Company, but this far Johnson would not go. <sup>20</sup>

The N.A.C.C. directors expressed to Johnson their concern about

<sup>18</sup> H. Ford to Edison, Oct. 6, 1933, Acc. 52, Box 8, Ford Archives; "Reminiscences of Moekle," Vol. II, p. 150, Ford Archives; *Detroit News*, June 25, 1933.

<sup>19</sup> The code of the automobile manufacturing industry is in N.R.A., *Codes of Fair Competition*, Vol. I (Washington, 1933), pp. 253-266.

<sup>20</sup> Special Meeting of N.A.C.C. with General Johnson held in General Motors Building, July 28, 1933, Chapin Papers; Johnson, *Blue Eagle*, pp. 236-237; Ford to Edison, Oct. 6, 1933, Acc. 52, Box 8, Ford Archives.

Ford's reluctance to associate himself with the code. "We want every advantage and every disadvantage equal," Walter Chrysler explained. On the one hand, the directors were troubled by the advantage in cost which the lower wages he then paid gave Ford and, on the other hand, were apprehensive that Ford, with his penchant for the dramatic, would take some action that would embarrass them. "That baby," said Chrysler, "should go to 30 hours a week and \$1.00 an hour and he signs that Clause VII it will put us in a hell of a position." Johnson informed the directors, however, that if Ford did not sign the code, his cars could not display the Blue Eagle, the symbol of compliance with the N.R.A. "I wouldn't like to go out and sell any product in the United States that didn't have that bird on it," Johnson declared. He also assured the auto executives that he would not permit Ford to "upset" the industry's price structure.<sup>21</sup>

As a matter of fact, Ford had no intention of upsetting the industry's price structure, and, despite some press speculation, he was not preparing to "soar far beyond" existing hour and wage standards in the industry. He was also apparently untroubled by the thought that his failure to sign the code would prevent him from displaying the Blue Eagle. "Hell," Liebold remembers him saying, "that Roosevelt buzzard! I wouldn't put it on the car."<sup>22</sup>

Thus, when the auto code went into effect on September 5, 1933, the Ford Motor Company was not among the concerns that signed assent forms. This fact, plus the soon-to-be-noted refusal of the federal government, for a time, to purchase Ford cars, produced a flood of letters to the National Recovery Administration and a lesser number to Ford in criticism or in praise of Ford's action. One of Ford's critics thought him nothing less than a "traitor," and another described him as "mentally twisted, unbalanced and prejudiced." The president of the Ford Owners Alliance, who claimed two hundred thousand members, wrote on September 1 that all members would soon display windshield stickers stating "My last Ford supports NRA." But Ford also had his defenders, one of whom denounced this "Jewish-Johnson-Baruch-Wall Street persecution," and another of whom deplored the government's attack on "the nation's

<sup>21</sup> Special Meeting of N.A.C.C. with Johnson, July 28, 1933, Chapin Papers. During Sept., 1933, the first month that the code was in effect, the average hourly earned rate for factory employees in the Rouge was \$.5947 as compared to the industry average of \$.656. Records of the N.R.A., National Archives, Record Group 9, Box 669 (henceforth, records from this group will be designated N.R.A.); George Myrick, "An Economic Survey of the Automobile Industry" (1936), Vol. III, p. 52, N.R.A. Box 8309.

<sup>22</sup> *Detroit Free Press*, Sept. 2, 1933; "Reminiscences of Liebold," p. 1,406, Ford Archives.



greatest benefactor." Ford drew praise, in particular, from businessmen who saw him as a symbol of opposition to government regulation and collectivism and to the New Deal. One of Ford's defenders, who congratulated him on his stand against "the present damned rotten Administration," even composed a bit of doggerel for the occasion:<sup>23</sup>

NRA me down to sleep  
I pray Johnson my code to keep;  
If I should bust before I wake  
AF of L my plant will take.

Many of Ford's critics wanted the federal government to demonstrate that it was bigger than Henry Ford and, in the words of one of them, to "Turn the hose on Henry."<sup>24</sup> Actually though, as long as Ford complied with the automobile code, there was little the federal government could do to chastise him for his recalcitrance other than to refuse to award government contracts to the Ford Motor Company or to Ford dealers and, similarly, to urge the public not to purchase Ford products. At his press conference of August 29, Johnson, when asked if he intended to "crack down" on Ford, replied: "I think maybe the American people will crack down on him when the Blue Eagle is on other cars and he does not have one."<sup>25</sup> Public authorities in various jurisdictions and some individuals promptly responded to Johnson's suggestion by announcing their refusal to purchase Ford products.<sup>26</sup>

While the federal government during September, 1933, pursued a policy of "watchful waiting" as regards Ford, the Detroit industrialist took two actions which were at least in part designed to offset public criticism of his refusal to sign the auto code. On September 5, the day the code went into effect, Ford announced that his employees would receive wage increases ranging from \$.40 to \$1.00 a day. Ten days later the company made it known that employment would be given to 5,000 Wayne County veterans. Neither action, however, had any great impact from a public-relations standpoint. The other auto manufacturers had already increased wages by a comparable or greater amount, and the hiring of the veterans

<sup>23</sup> File of letters in Folder 11, N.R.A. Box 656; N.R.A. letters on F.M.C. attitude, Acc. 390, Box 10, Ford Archives; Jerome T. Harriman to Ford Motor Co., Sept. 1, 1933, George Gould to Ford, July 19, 1934, Acc. 38, Box 75, Ford Archives; various letters in Acc. 6, Boxes 150, 166, Acc. 23, Box 12, Acc. 38, Box 73, Ford Archives.

<sup>24</sup> Folder 11, N.R.A. Box 656.

<sup>25</sup> *Detroit News*, Aug. 30, 1933.

<sup>26</sup> *New York Times*, Sept. 1, 2, 12, 13, 14, 1933.

brought prompt charges from unemployed Ford workers who were also veterans that they were being discriminated against.<sup>27</sup>

Obviously antagonized by Ford's unwillingness to sign the auto code, Johnson was anxious to have the federal government proclaim its refusal to purchase Ford products. He found sanction for a boycott policy in Executive Order 6246 of August 10, 1933, which stated that the recipients of government contracts were to comply with the applicable provisions of the code of their industry or trade.<sup>28</sup> Although the order did not require a contractor to sign the applicable code and did not deal directly with the question as to whether the seller of a product could be denied a contract if the manufacturer of the product fell under the order's ban, Johnson contended that as long as Ford did not sign the code, the federal government should not purchase vehicles from Ford dealers even though the latter might be fully complying with the dealers' code. "To let Mr. Ford escape the consequences of this Act because his dealer has a Blue Eagle," Johnson wrote on September 22, "would be to allow a billion dollar corporation hide behind the skirts of a thirty thousand dollar company." Concurring in Johnson's view of the matter, President Roosevelt remarked at his press conference on October 27 that the federal government should buy goods manufactured not only in accord with N.R.A. standards but "by people who have gone along with the general agreement." "It is the article rather than the person you buy it through," the President declared. ". . . we have got to eliminate the purchase of Ford cars."<sup>29</sup>

At a press conference of his own on October 27, Johnson declared that if the Ford Motor Company did not submit the wages and hours data required of it by the auto code, he would bring this fact to the attention of the Attorney General. This moved Ford to reply, in a statement prepared by Cameron, that "Before assuming the airs of a dictator, he [Johnson] should fortify himself with evidence that Henry Ford has refused compliance with Government requirements." "We suggest a code of fair publicity for Mr. Johnson's interviews."

Johnson retorted that he had not said that he had evidence of any

<sup>27</sup> *Detroit Free Press*, Sept. 7, 16, 24, 1933; *New York Times*, Sept. 6, 7, 14, 26, 29, 1933; *Detroit News*, Sept. 6, 7, 16, 24, 1933; "Reminiscences of Mockle," Vol. II, p. 155, Ford Archives.

<sup>28</sup> Jordan D. Hill, *Relationship of N.R.A. to Government Contracts and Contracts Involving the Use of Government Funds*, N.R.A. Division of Review, Work Materials No. 49 (Washington, 1936), pp. 3-4.

<sup>29</sup> Johnson to Daniel Roper, Sept. 22, 1933, Official File 466, Box 2, F.D.R. Library, Hyde Park (henceforth, Official File will be designated O.F.); Press Conference #64, Oct. 27, 1933, pp. 382-383, F.D.R. Library.

Ford violation of the code, but that Edsel had told him that the company would not "submit" to a code that required collective bargaining. At all events, Johnson stated, Ford was not eligible to receive government contracts, a conclusion that the President supported.

Counterattacking again, Cameron stated that Ford had complied with the code "in every respect" and exceeded it "in all its real recovery features." Ford had not bid on any government contracts, and if Ford dealers had, it was only because government departments insisted that they do so. By refusing to award contracts to Ford dealers, Johnson was simply proposing to injure the taxpayer by having the federal government pay higher prices for motor vehicles produced by companies that paid lower wages than Ford did.<sup>30</sup>

Ford's publicity blasts against Johnson were followed the next day by a protest to Comptroller General J. R. McCarl from Ford dealer R. P. Sabine, the head of the Northwest Motor Company of Bethesda, Maryland, that his firm had been denied a government contract for several hundred trucks for the Civilian Conservation Corps although it was the low bidder and was complying with the dealers' code. The Comptroller General on November 10 rejected Sabine's contention that the federal government, in effect, could not go behind dealer compliance to require compliance by the manufacturer, but at the same time he ruled that there was nothing in the N.I.R.A. or the auto code that required a company actually to sign a code or to signify its intent to comply. The fact that Ford had failed to take such action was "not controlling here," and unless the contrary was proved, and it had not been, it had to be assumed that Ford was complying.<sup>31</sup>

The crucial question thus was not whether Ford had signed the code but whether he was complying with it. The answer was not long in coming. Five days after the Comptroller General's ruling, N.R.A. Deputy Administrator Karl J. Ammerman reported that "To the extent of our information, the Ford Motor Co. has, save in respect of certain technical particulars which we consider immaterial, complied satisfactorily with the Code. . . ." Ammerman's conclusion was based on a study of the wages and hours re-

<sup>30</sup> *Detroit News*, Oct. 27, 28, 1933; *New York Times*, Oct. 28, 1933. Johnson, after this exchange of verbal blows with Ford, traded in his Lincoln for a Cadillac. *New York Times*, Oct. 29, 1933.

<sup>31</sup> *New York Times*, Oct. 26, 31, 1933; *Detroit News*, Nov. 21, 1933; McCarl to Secretary of Agriculture, McCarl to Secretary of Commerce, Nov. 10, 1933, Acc. 52, Box 8, Ford Archives.

ports that Ford had submitted to the N.R.A., and there is, indeed, no question that Ford scrupulously observed the wages and hours provisions of the code throughout the life of the N.R.A.<sup>32</sup> Whether he similarly observed the requirements of Section 7(a), which were embodied in Section VII of the code, is, however, another matter. Publicly, the N.R.A. never charged Ford with failure to comply with Section 7(a), but, as we shall see, the Compliance Board of the N.R.A. eventually concluded that Ford had violated the section's requirements.

At all events, the Comptroller General's ruling of November 10 opened the way to the award of government contracts to Ford dealers. On December 1, 1933, the Secretary of Agriculture awarded Sabine a contract for over 800 trucks for the C.C.C., and by March 1, 1934, approximately one million dollars in government contracts had been granted to Ford dealers.<sup>33</sup> The contest between Ford and the N.R.A. was by no means over, however. On March 14, the day after the Ford Motor Company had announced its return to the five-dollar day, the President issued a new executive order (6646), which specified, with obvious reference to the Ford case, that the federal government would not contract for materials "in whole or in part, produced or furnished by any person who shall not have certified that he is complying with each code of fair competition that relates to such articles, materials, or supplies. . . ." <sup>34</sup> Thus, a signed certificate of compliance by Ford was essential if Ford dealers were to receive government contracts.

In submitting a bid to the Department of Commerce on March

<sup>32</sup> Ammerman to Johnson, Nov. 15, 1933, and attached letter for Rexford G. Tugwell, N.R.A. Box 654. The wages and hours reports of the Ford Motor Co. to the N.R.A. are in N.R.A. Box 669. In an effort to embarrass the N.R.A., Ford, on Nov. 3, 1933, made an ostentatious display of his compliance by announcing that "in compliance with the new prohibition against work in this Country," Rouge employees, then working 40 hours per week, would be laid off in shifts for 7 days at a time so that their average weekly hours of employment for the effective period of the code should not exceed the stipulated 35-hour limit. Johnson correctly interpreted this action as a response to the seasonal drop in automotive production. Ford plants in the U.S. produced only 7,142 cars and trucks in November. *Detroit Free Press*, Nov. 4, 5, 1933; N.R.A. Release No. 1556, Nov. 4, 1933, Acc. 622, Ford Archives.

<sup>33</sup> *Detroit News*, Dec. 2, 1933, May 6, 1934. The extent to which the Northwest Motor Co. actually represented the Ford Motor Co. in submitting bids for government business has been a matter of some uncertainty. According to E. C. Simons, who was employed at the time in Ford's Washington District Sales Office, the Ford Motor Co. ceased direct bidding on government contracts as the result of Executive Order 6246. Sabine thereupon requested and received permission from Henry Ford "to engage in Government selling." Simons was instructed "to render every assistance possible" to Sabine but "to avoid any action that could be construed as participation by the Ford Motor Company in the direct sales." Until Sabine became "better established," the Ford Motor Co. aided him in financing sales to the government, and Simons did "most of the work of preparing the bids and processing the orders." Simons indicates that the Northwest Motor Co. sold 828 vehicles to the federal government in 1933; 1,518 vehicles in 1934; and 3,833 vehicles in 1935. Statement of E. C. Simons, Feb. 11, 1958, Ford Archives.

<sup>34</sup> Hill, *Relationship of N.R.A. to Government Contracts*, pp. 17-18.

30, 1934, the Northwest Motor Company certified its compliance with the dealers' code but stated that it could not make representations concerning the various manufacturers who had a part in fabricating the product it was attempting to sell, and to require it to do so was "unfair and unjust." The Comptroller General, however, ruled against Sabine on May 17. Sabine thereupon secured a court order temporarily restraining the government departments concerned from rejecting his bids, but on May 24 Justice Daniel W. O'Donoghue of the Supreme Court of the District of Columbia denied the company a temporary injunction, declaring, "It would seem unreasonable that the President should be compelled to contract with any company, no matter how wealthy or how powerful, if that company is thwarting the Recovery Act and defying the government to enforce it."<sup>35</sup>

Despite this ruling, Ford stubbornly refused to sign a certificate of compliance, and for several months Chevrolet virtually monopolized the federal government's purchase of small cars and trucks.<sup>36</sup> However, although Executive Order 6646 remained in effect, the federal government eventually relaxed its ban on the purchase of Ford products. It first deviated from the requirements of the executive order by permitting the purchase of repair and replacement parts for Fords already in the government service, an obvious necessity unless the federal government was prepared to replace all its Fords. For a time the N.R.A. authorized the purchase of such parts only on the basis of emergency exceptions to 6646, but, lest it "would look as though we were backing down," no general exception to the order was made for this purpose until January 16, 1935.<sup>37</sup>

The Compliance Division of the N.R.A. became aware in October, 1934, that government departments were beginning to purchase new Fords on the strength of certificates of compliance furnished by dealers, but Johnson advised the Division "not to make an issue of this" because of negotiations then under way which it was hoped would result in Ford's certification of his compliance. Whatever

<sup>35</sup> *Ibid.*, pp. 38-42; *New York Times*, May 18, 20, 25, 1934; *Detroit News*, May 6, 14, 18, 25, 26, 1934.

<sup>36</sup> *Detroit News*, June 26, Aug. 6, 1934. Ford claimed that he refused to sign a certificate of compliance because this meant to "waive his constitutional rights and accept Gen. Hugh S. Johnson as both judge and jury in any dispute that might arise." *Detroit News*, June 27, 1934. Ford, however, refused to sign a certificate of compliance even after Johnson left the N.R.A.

<sup>37</sup> H. J. Collins to Administrator, N.R.A., June 11, 1934, Frank Healy to Blackwell Smith, June 25, 1934, Healy to Sol Rosenblatt, Dec. 6, 1934, Administrative Order GC-73, Jan. 16, 1935, N.R.A. Drawer 1798; Healy to Donald Nelson, Nov. 6, 1934, N.R.A. Drawer 642.



the nature of these negotiations, however, they did not result in Ford's altering his stand in any way, although Sabine late in October tried to persuade the N.R.A. to accept as the equivalent of a certificate of compliance a telegram dated January 5, 1934, from Ford's sales manager, W. C. Cowling, to the Secretary of the Interior in which Cowling stated that Ford had complied with the code and would continue to do so. Sabine did not explain how a wire dated January 5, 1934, could contain a reference to Executive Order 6646, dated March 14, 1934.<sup>38</sup>

Despite Ford's refusal to compromise and in the face of objections from Chrysler, the purchase of Fords by the federal government continued. It was announced on February 19, 1935, that the Department of the Interior had purchased 35 Fords and the Department of Agriculture about 400, and a few days later the War Department, anxious to widen the competition in the bidding for its contracts, requested Ford to bid on a \$4 million order for the C.C.C.<sup>39</sup>

All in all, Ford's refusal to sign a certificate of compliance did not seriously affect the sale of Ford cars and trucks. It is true that Ford lost out on the possibility of gaining his share of several million dollars of government business, particularly between March and October, 1934, but the civilian purchase of Ford products suffered not at all. It would appear that the nation's motorists agreed with Will Rogers when he remarked, "You can take the rouge from female lips, the cigarettes from the raised hands, the hot dogs from the tourists' greasy paw, but when you start jacking the Fords out from under the traveling public you are monkeying with the very fundamentals of American life."<sup>40</sup> Indeed, whereas the Ford Motor Company (including Lincoln) had suffered a net loss of \$7,888,718 after taxes and accounted for only 21.5 per cent of the total new passenger car and truck registrations in the United States in 1933, in 1934 it made a profit of \$21,362,118 after taxes and increased its percentage of total new car and truck registrations to 28.8. Ford triumphantly announced on November 1, 1934, that the depression was over for him and that this would be true of the nation as a whole "if American industrialists would just forget

<sup>38</sup> Healy to George Lynch, Oct. 12, 1934, Healy to S. Clay Williams *et al.*, Jan. 3, 1934 [1935], N.R.A. Drawer 642; Sabine to Williams, Oct. 22, 1934, N.R.A. Box 3; *Detroit News*, Nov. 22, 1934. There is a copy of the alleged Cowling telegram in N.R.A. Box 677.

<sup>39</sup> Executive Assistant, Division II, to W. A. Harriman, Nov. 26, 1934, N.R.A. Box 34; *Detroit Free Press*, Feb. 20, 26, 1935.

<sup>40</sup> Cited in William A. Simonds, *Henry Ford, His Life - His Work - His Genius* (Indianapolis, 1943), p. 247.

these alphabet schemes and take hold of their industries and run them with good, sound American business sense."<sup>41</sup>

### III

Particularly during the early months of the Ford-N.R.A. controversy, there was speculation in the press concerning the possibilities of a meeting between President Roosevelt and Henry Ford to discuss N.R.A. problems. Roosevelt certainly desired such a meeting, but the various attempts to bring the two men together all came to naught.

When George J. Atwell wrote the President late in September, 1933, that Ford was anxious to visit with him, the Chief Executive instructed his secretary, Marvin H. McIntyre, to reply that the President would be glad to talk with Ford, "but that he has never even suggested that he would like to see the President."<sup>42</sup> Not wishing to leave this important matter to chance, Charles Edison, son of Ford's long-time friend, Thomas A. Edison, and active in N.R.A. work in New Jersey, tried his hand at about this time at arranging a meeting between the President and the industrialist. His effort elicited a long letter from Ford on October 6 in which the motor king indicated that he had "deep respect" for Roosevelt "personally and as President" and that he credited him "with an earnest and religious desire to do everything possible to ease the situation of this country. . . ." Indeed, Ford remarked that he had "to make a sharp distinction . . . between the President and the NIRA" because he could not believe that Roosevelt had conceived that "complicated and impractical plan."<sup>43</sup>

Upon reading this letter, the President, Edison informed Dearborn by phone, remarked, "Oh, he doesn't get it at all. I wish he would let me talk this over with him." The next day, in a letter which he had drafted with McIntyre's aid and which the President had edited, Edison wrote that it appeared to him that the two men were willing to meet but that each thought the other should request the meeting. Edison felt it necessary to remind Ford that Roosevelt "is, after all, the President of the United States." The feeling of the President for Ford, Edison thought, was "a very friendly

<sup>41</sup> Federal Trade Commission, *Report on Motor Vehicle Industry*, p. 649; *Ward's 1939 Automotive Year Book*, pp. 42, 46; *New York Times*, Nov. 2, 1934.

<sup>42</sup> Atwell to F.D.R., Sept. 29, 1933, F.D.R. to Mac, Oct. 3, 1933, O.F. 3217, F.D.R. Library.

<sup>43</sup> Ford to Edison, Oct. 6, 1933, Acc. 52, Box 8, Ford Archives.

one. I noted no note of antagonism, beyond his statement made with a smile that 'If Henry will quit being a damn fool about this matter and call me on the telephone I would be glad to talk with him.'" Ford, however, did not make the call, and Edison had to concede, "As a Clearing House, I guess I'm something of a flop."<sup>44</sup>

A few weeks after Edison's unsuccessful effort, Ford's former business associate, Senator James Couzens, informed the President that Ford would like to visit with him. Roosevelt, therefore, on November 7, 1933, invited Ford to the White House "as an old friend whom I used to know in my Navy days." Ford declined the invitation, however, allegedly because he feared that his visit would be construed as an effort on his part to persuade the government to buy Ford cars.<sup>45</sup>

Roosevelt renewed the invitation in responding to birthday greetings which Ford wired him on January 30, 1934. "We all admire the directness with which you are attacking the nation's problems," Ford wrote, "and we are all the grateful beneficiaries of your immeasurable services in maintaining a courageous spirit amongst all the people." In reply, Roosevelt said that he would "like very much" to have Ford visit him any time he was in Washington.<sup>46</sup>

Assuming the initiative once again, Roosevelt, late in October, 1934, decided to invite Henry and Edsel Ford and their wives to the White House to talk about plans to relocate urban dwellers in "country communities" and to locate smaller industries in small towns. This time Mrs. Roosevelt intervened and informed Presidential Press Secretary Steve Early, that she thought "it would be a 'stupid political mistake' to have them here, invited by you." It was her view, Early informed the President, that "Ford did more than any other man to wreck NRA; to have him here would be to encourage NRA opposition and discourage the friends of NRA."

Undoubtedly because of Mrs. Roosevelt's objections, the President decided to delay the invitation to Ford until after the Congressional elections. The letter was sent on November 8, and the Fords were invited not to the White House but to Warm Springs. Henry and his wife were unable to come because of the state of Mrs. Ford's health, but Mr. and Mrs. Edsel Ford visited with the Presi-

<sup>44</sup> Text of phone conversation with Edison [Oct. 7, 1933], Edison to Ford, Oct. 8, 9, 1933, Acc. 52, Box 8, Ford Archives.

<sup>45</sup> F.D.R. to Ford, Nov. 7, 1933, President's Personal File 680, F.D.R. Library (henceforth, President's Personal File will be designated P.P.F.); *Detroit News*, Nov. 26, 1933.

<sup>46</sup> Ford to F.D.R., Jan. 30, 1934, F.D.R. to Ford, Feb. 23, 1934, P.P.F. 680, F.D.R. Library.

dent on November 24.<sup>47</sup> Whether Edsel and the President discussed N.R.A. problems is not known, but what does appear clear is that Edsel's father not only refused to sign the code for his industry but was unwilling even to discuss the matter with the President of the United States.

#### IV

The answer as to whether or not the Ford Motor Company conformed to the requirements of Section 7(a) is to be found in the events growing out of the labor disturbances that occurred in late September, 1933, at the Ford assembly plants in Chester, Pennsylvania, and Edgewater, New Jersey. The trouble at Chester began on the morning of September 26. The principal grievance of the men appears to have been the decision of the company, announced on September 22, that the work week would be reduced from five to four days without any increase in the base pay of \$4.00 a day. There was no union in the plant, and there had been no effort on the part of the men to present any demands to the local management. At about 10:00 a.m. on the 26th there was a commotion at the rear end of the chassis line occasioned by a few men who threw down their tools and shouted to the other workers to follow them out of the plant. This sudden action caused a shutdown of the chassis line. Superintendent A. M. Harris then appeared and, when he failed to persuade the employees congregated about the line to return to their jobs, ordered the workers out of the plant. Approximately twenty-five hundred persons were employed in the plant at that time.

Outside the plant, where the men were milling about, a committee of employees representing the various departments in the plant was formed to present demands to the plant management. The committee entered the plant and informed Harris that the workers wanted a seven-hour day, a five-day week, and a minimum wage of \$5.00 per day. There is a difference of opinion as to whether other demands were also presented. Harris informed the committee that the matter would have to be referred to company headquarters in Dearborn. He advised the committee to have the workers back at their jobs by 12:00 noon, but since it was already 11:20 a.m., he

<sup>47</sup> Confidential memo for the President from S. T. Early, undated, attached to F.D.R. to Ford, Nov. 8, 1934, P.P.F. 680, F.D.R. Library; Ford to F.D.R., Nov. 16, 1934, McIntyre to Ford, Nov. 21, 1934, Acc. 285, Box 1676, Ford Archives; *Detroit News*, Nov. 25, 1934. The following notation appears at the bottom of Early's memo: "Hold till after Cong. elections. S.E."

changed the time of return to 7:30 the next morning.<sup>48</sup> Harris then called Dearborn and was instructed to post a sign that the plant was closed indefinitely.<sup>49</sup> This decision was made without any knowledge as to whether the workers would return to work the next morning.

When the committee reported the results of its meeting with Harris to the workers outside, the decision was made to organize an A.F. of L. local. An A.F. of L. representative was called in, and an application for a charter was made. Apparently, a substantial number of workers pledged that they would join the union, but only a few hundred actually paid initiation fees. The A.F. of L. organizer who had been summoned got in touch with the National Labor Board the same evening, and the N.L.B. instructed James F. Dewey, a Department of Labor conciliator and a Chester resident, to proceed to Chester to arrange a settlement.<sup>50</sup>

When the workers arrived at the plant on the morning of the 27th, prepared to return if their demands were met or, perhaps, pending mediation by the N.L.B.,<sup>51</sup> they, of course, learned that the plant was closed indefinitely. Dewey arrived on the scene within a few hours and went into the plant. He was kept waiting for 45 minutes and was then informed by a stenographer that Plant Manager F. A. Atcheson would not see him until he had received permission to do so from Dearborn. Dewey told the stenographer to inform Atcheson that if he would not see him in five minutes, he would refer the issue to Washington. Dewey was thereupon ushered into Atcheson's office and advised the plant manager that if the company would meet with the committee and with him, the matter could be settled in five minutes. The men could return to

<sup>48</sup> The workers' version of the events of Sept. 26 is presented in Thomas J. Dunphy *et al.* to Wagner, Oct. 11, 1933, N.R.A. Drawer 641; transcript of conference in Handler's office, Dec. 4-5, 1933, Case 105, Records of the National Labor Board, Record Group 25, National Archives, Drawer 17 (henceforth, records in this group will be designated N.L.B.); and N.R.A., Ford Motor Co., Transcript of Hearing Held at Chester, Pa., Mar. 3, 1934, N.R.A. Drawer 642. Harris' version is in Statement Dictated by Mr. A. M. Harris, Mar. 1, 1934, Acc. 52, Box 12, Ford Archives. The grievances of the workers are summed up in Dunphy *et al.* to Wagner, Sept. 27, 1933, N.R.A. Drawer 641.

<sup>49</sup> Harris statement, Mar. 1, 1934, Acc. 52, Box 12, Ford Archives.

<sup>50</sup> Transcript of Handler conference, Dec. 4-5, 1933, pp. 2, 5-6, Case 105, N.L.B. Drawer 17; N.R.A., Transcript of Chester Hearing, Mar. 3, 1934, pp. 9-10, 25-26, 87-88, N.R.A. Drawer 642; memorandum based on information supplied by Michael J. Gandiello, Oct. 16, 1933, N.R.A. Drawer 641. The N.L.B. was created by the President on Aug. 5, 1933, to adjust "differences and controversies" arising out of the President's Re-employment Agreement. It also began dealing with "differences and controversies" arising under the codes, although it was not specifically authorized to do so until Dec. 16, 1933.

<sup>51</sup> There is conflicting evidence as regards the intention of the workers on the morning of the 27th. See Dunphy *et al.* to Wagner, Oct. 11, 1933, N.R.A. Drawer 641; transcript of Handler conference, Dec. 4-5, 1933, p. 6, Case 105, N.L.B. Drawer 17; N.R.A., Transcript of Chester Hearing, Mar. 3, 1934, p. 89, N.R.A. Drawer 642; *Chester Times*, Sept. 26, 1933.



work, and any unresolved issues could be taken up with Dearborn. Atcheson called his superiors in Dearborn and then informed Dewey that the plant was closed and that he could not discuss the situation with either Dewey or the employees' committee. At Dewey's request, Atcheson phoned this information to Senator Robert F. Wagner, the chairman of the N.L.B. Dewey, who regarded the company's attitude as "very arbitrary and unfair," presented the situation to the N.L.B. the next day and recommended "drastic action."<sup>52</sup> For a time, however, Wagner was no more able than Dewey had been to persuade the company to negotiate with the employees and a representative of the N.L.B.<sup>53</sup>

The company decided to reopen the plant on October 16, and approximately eight hundred workers were summoned by invitation to report on that date. The union insisted that many of these men had not been on the payroll on September 26, but apparently only seven of those summoned were new employees.<sup>54</sup> It should of course be noted that in the view of the Ford Motor Company, the workers who remained away from their jobs at Chester, and also at Edgewater, thereby severed their connection with the company and had to apply for re-employment if they wished their jobs back, whereas the N.L.B. regarded strikers (and certainly workers who had been locked out) as continuing in the status of employees.<sup>55</sup>

On October 14 the N.L.B. wired Atcheson that it had been charged that some employees were being discriminated against in the re-opening of the Chester plant and that the company had refused to bargain and that therefore a hearing would be held on October 17, to which Ford was invited to send a representative. Ford replied on October 16 that the company had been advised by counsel that it had no obligation to attend any hearing but that it could say there

<sup>52</sup> Dewey testimony, transcript of Handler conference, Dec. 4-5, 1933, pp. 8-9, Case 105, N.L.B. Drawer 17; Dewey to Leiserson, Sept. 27, 1933, N.R.A. Drawer 641.

<sup>53</sup> Wagner to H. Ford, Sept. 29, 1933, Liebold to Wagner, Oct. 3, 1933, Leiserson to Liebold, Oct. 5, 1933, N.R.A. Drawer 641.

<sup>54</sup> A. J. Bait to H. C. Doss, Oct. 20, 1933, Acc. 52, Box 8, Ford Archives; Atcheson to Doss, Oct. 26, 1933, Acc. 52, Box 12, Ford Archives (Doss, who was assistant to the Ford sales manager, served as the liaison man between Dearborn and the Chester and Edgewater plants during the period of the labor disturbances); Dunphy *et al.* to Wagner, no date, N.R.A. Drawer 641; undated memorandum dealing with the reopening of the plant, N.R.A. Drawer 641; *Chester Times*, Oct. 14, 1933; *Philadelphia Inquirer*, Oct. 15, 1933. Some of the workers were apparently asked to sign a card certifying the signer as one of the "Loyal Ford Employees" of Chester. Company officials denied knowledge of this. Dunphy *et al.* to Wagner, undated, N.R.A. Drawer 641. One of these cards is in N.R.A. Drawer 642.

<sup>55</sup> For the N.L.B.'s position, see Lewis L. Lorwin and Arthur Wubnig, *Labor Relations Boards: The Regulation of Collective Bargaining under the National Industrial Recovery Act* (Washington, 1935), p. 174. There is a copy in Acc. 52, Box 12, Ford Archives, of the communication sent to the Chester employees, following the shutdown of the plant, terminating their services with the company.

had never been discrimination against Ford employees because of union affiliation and that the company had not refused to meet duly authorized employee representatives.<sup>56</sup>

Although there was no hearing on October 17, Dewey was able to arrange a conference between the employees' committee and the plant management on October 25. Actually, the conference involved no real discussion of issues since Atcheson was utterly without any authority to make any decisions. He even had to consult with Dearborn before rejecting the committee's request to engage a stenographer. The main purpose of the meeting was to provide the men with an opportunity to present their demands. Worried about the re-employment of those not yet called back to work and advised to concentrate on this subject by Dewey, the committee asked that those not working be returned without discrimination; that those who could not be reinstated at once because of lack of work should be re-employed before new workers were engaged; that men on the payroll who were not working September 26 should be discharged to make room for those who had been "locked out"; and that after full operations had been resumed or as soon as any of the committeemen had been re-employed, a conference should be held to discuss wages and other grievances, with regular meetings to follow.<sup>57</sup>

The reply to these demands was worked out in Dearborn and was handed by Atcheson to the employees' committee on November 10 without comment and without discussion. The company stated that it always judged applications for work on the basis of merit alone and without discrimination and that its policy was also to rehire "former" employees on this basis. No one then working, the company declared, would be discharged for reasons other than lack of work or incompetence. Finally, a system of regularly scheduled meetings was "unnecessary to the continuance of just relations between the Company and the employees" since the management was "ready at all reasonable times to hear individual employees or their representatives on matters that properly pertain to the relations between them." Instructed to report to Dearborn on the effect of this communication on the workers, Atcheson was able to state in a few days that he had learned through an "agent" that most of the

<sup>56</sup> Wagner to Atcheson, Oct. 14, 1933, Ford Motor Co. to Wagner, Oct. 16, 1933, N.R.A. Drawer 641; Wagner to Ford Motor Co., Oct. 17, 1933, Atcheson to Doss, Oct. 18, 1933, Acc. 52, Box 12, Ford Archives.

<sup>57</sup> Atcheson to Doss, Oct. 26, 1933, Acc. 52, Box 12, Ford Archives; Meeting of Strikers' Committee and Chester Branch Officials, Oct. 25, 1933, Acc. 52, Box 12, Ford Archives; memorandum by Benedict Wolf, Oct. 23, 1933, N.R.A. Drawer 641.

active union men now realized that they had been defeated and were prepared to return to work.<sup>58</sup>

Anxious for the assistance of the federal government, the employees' committee presented its case to the N.L.B. in a conference conducted by Milton Handler, the N.L.B.'s general counsel, on December 4 and 5.<sup>59</sup> A few days later, Handler, in response to a phone call from the acting secretary of the union, who appears to have been a Ford labor spy, indicated that the employees had been in error in walking out before any demands had been submitted and that the evidence they had presented did not indicate any violation of the N.I.R.A. by Ford.<sup>60</sup> Discouraged by this report and by their inability to secure any material aid from the A.F. of L., the workers voted to disband their local union and to return its charter.<sup>61</sup> Their case was eventually turned over to the Compliance Division of the N.R.A., and a hearing was held by the Compliance Board on March 3.<sup>62</sup> The Ford Motor Company refused to attend the hearing, insisting that no specific complaint had been filed against it and claiming that it had not violated Section 7 (a).<sup>63</sup> The conclusions of the Compliance Board will be noted below.

The facts in the Chester case make it clear that what had begun as an unorganized strike soon developed into a lockout. There also seems little doubt that the company practiced discrimination in its re-employment of those who had walked out. As late as the first of March, 477 employees had not been re-employed even though the total number at work on that date exceeded the number at work on September 26.<sup>64</sup> Since those denied employment were

<sup>58</sup> Doss to Atcheson, Nov. 8, 1933, and attached reply to workers' demands, Atcheson to Doss, Nov. 14, 1933, Acc. 52, Box 12, Ford Archives.

<sup>59</sup> Transcript of Handler conference, Dec. 4-5, 1933, Case 105, N.L.B. Drawer 17.

<sup>60</sup> Memorandum by Handler, Dec. 7, 1933, N.R.A. Drawer 641; #45 to George J. Schmidt (Chester factory service head), Nov. [Dec. ?], 7, 1933, Acc. 52, Box 12, Ford Archives. Internal evidence strongly indicates that the latter report, only a typed copy of which is available in the Ford Archives, was actually made on Dec. 7. If this is so, #45 was Ed Hoffman, acting secretary of the Chester local, who later was chairman of the Communist-led Ford Workers' Protective Association against Discrimination, an organization formed by former Chester employees after the A.F. of L. local dissolved. According to #45's report, Handler advised that the men should return to work. Handler, who names Hoffman as the man who questioned him, states that Hoffman thought that under the circumstances the men should return to work.

<sup>61</sup> Dunphy to Healy, Feb. 22, 1934, N.R.A. Drawer 641; *Chester Times*, Mar. 5, 1934.

<sup>62</sup> The National Compliance Board, consisting of the Compliance Director and a member each from the N.R.A.'s Labor Advisory Board and Industrial Advisory Board, heard cases involving violation of a code.

<sup>63</sup> Exchange of correspondence between William H. Davis and G. C. Royall and Ford Motor Co., Feb. 27-Mar. 4, 1934, N.R.A. Drawer 642; N.R.A., Transcript of Chester Hearing, N.R.A. Drawer 642; *Chester Times*, Mar. 5, 1934.

<sup>64</sup> "Payroll Data" attached to typed sheet with heading, "March 1st, 1934," Acc. 52, Box 12, Ford Archives. Section 7(a) did not specifically forbid an employer to discriminate against union members, but it was so interpreted by the N.L.B. Lorwin and Wubng, *Labor Relations Boards*, pp. 167-168.

persons whose merit had already presumably been tested by their former service for the company — some of them were employees of long standing — the failure of the company to re-employ them suggests that factors other than merit influenced the decision. The fact that active union leaders were not rehired strengthens this inference.<sup>65</sup>

Above all, the company's conduct raises the question as to whether anything which can be described as collective bargaining actually took place at Chester. Atcheson's authority was limited to transmitting the workers' demands to Dearborn and the company's replies to the workers. At no time was there any real discussion between labor and management, any of the higgling and haggling one associates with bargaining, nor was there any effort on the company's part to reach a collective agreement. Collective bargaining, to be sure, was undefined in Section 7(a), and it remained for a succession of government labor boards to clothe it with meaning; but, nevertheless, it is difficult to regard what went on at Chester as collective bargaining even if the term is defined in the loosest possible sense. Of course, it must also be noted that the employees considerably weakened their case against the company by walking out before they had made any effort to discuss their grievances with the management.

The labor trouble that had developed at Chester on September 26 spilled over to the Ford assembly plant at Edgewater two days later. Unlike the situation at Chester, an A.F. of L. federal local had been formed at Edgewater prior to the strike. The first organizational meeting had been held on August 22, 1933, and the Ford management had a full report of what took place.<sup>66</sup> Indeed, throughout the strike, Ford was kept unusually well-informed by its labor spies of the union's activities.<sup>67</sup>

In the weeks following the August 22 meeting, Neill S. Brown, the plant superintendent, called in several of the men prominent in the new union and questioned them as to whether the formation of an

<sup>65</sup> The president of the A.F. of L. local still had not been re-employed as late as Feb. 22, 1934. Dunphy to Healy, Feb. 22, 1934, N.R.A. Drawer 641. Two of the members of the employees' committee had worked for the company for over 10 years. Meeting of Strikers' Committee and Chester Branch Officials, Oct. 25, 1933, Acc. 52, Box 12, Ford Archives.

<sup>66</sup> T. M. Manning to E. Ford, Aug. 24, 1933, and enclosed report of Aug. 22 meeting, Acc. 6, Box 154, Ford Archives. Manning sent this report to Edsel as a means of soliciting business for the Manning Industrial Service. Edsel's secretary, A. J. Lepine, replied to Manning on Sept. 11: "The Ford Motor Company service department has covered meetings such as you mentioned, and the Company is not in the market for outside service," Acc. 6, Box 154, Ford Archives.

<sup>67</sup> See the numerous reports of strikers' meetings in Acc. 52, Box 12, Ford Archives.

A.F. of L. local was in the best interests of the employees, although Brown later claimed he made it clear that the existence of the union was of no consequence to Ford. The secretary of the local, however, stated that Brown had hinted that the presence of the union might cause Ford to close the Edgewater plant.<sup>68</sup> Even if the latter allegation was untrue, Brown's actions do not seem entirely consistent with that self-organization of employees guaranteed by Section 7(a).

On the morning of September 28 approximately twelve hundred Chester workers appeared at the gates of the Edgewater plant, having made the 125-mile trip from Chester by auto, and began picketing aggressively. They had decided on this action because of unconfirmed reports that as the result of the labor disturbance at Chester, Ford planned to transfer Chester export contracts to Edgewater. As a consequence of this picketing, approximately five hundred Edgewater employees did not enter the Edgewater plant that morning. They were joined by other employees during the course of the day, and within a few days the number of workers in the plant had been reduced from 2,044 to 395. The union later claimed that sixteen hundred of the strikers were union members.<sup>69</sup>

As at Chester, the workers quit their jobs at Edgewater without having presented any formal demands to the plant management. The men did have their grievances against the company, however, and some of them were troubled by reports that Chester work would be transferred to Edgewater. Some of the men were thus predisposed to respond favorably to the Chester picketing, which triggered the Edgewater strike.<sup>70</sup>

At its inception, the strike was not a union action. As a matter of fact, on the morning of the 28th, four of the union leaders approached Brown and advised him that it was not an authorized walkout and asked permission, which was granted, to remonstrate with the men outside the plant. They failed, however, to persuade the workers to return. At an afternoon meeting of the strikers, the union leaders and A.F. of L. representative Hugh V. Reilly also

<sup>68</sup> Stenographic Report of Conference Held at the Office of the Ford Motor Car Co., Edgewater, Oct. 19, 1933, pp. 2-3, Acc. 52, Box 12, Ford Archives; Albert F. Wickens affidavit, undated, N.R.A. Drawer 642. The day of the first meeting, the foreman of the export department warned the workers in his charge that those attending would be discharged. William Herford affidavit, Nov. 11, 1933, N.R.A. Drawer 642.

<sup>69</sup> *New York Times*, Sept. 29, 1933; Brown to Doss, Nov. 21, 1933, Acc. 52, Box 12, Ford Archives; In re: Striking Employees of Edgewater, New Jersey, Plant of Ford Motor Co. Informal Hearing Held before Harry L. Tepper, Nov. 29, 1933, p. 3, N.R.A. Drawer 642.

<sup>70</sup> Stenographic Report of Oct. 19 Conference, pp. 24-29, Acc. 52, Box 12, Ford Archives; Ford Conference at [New Jersey] State Headquarters, Oct. 19, 1933, pp. 8-13, N.R.A. Drawer 642.

failed in efforts to discourage the men from calling a strike. The next morning the strike committee requested the New Jersey N.R.A. to mediate the dispute and informed that agency that the strike demands were a seven-hour day, a five-day week, and a minimum wage of \$5.00 a day, recognition of collective bargaining through representatives of the workers' choice, permission to leave the plant during the 30-minute lunch period, and the return of all the workers without discrimination when the other demands had been adjusted. The Ford Motor Company refused, however, to accept the offer of the New Jersey N.R.A. to mediate.<sup>71</sup>

On October 4, three Bergen County clergymen, after visiting with the strike committee, carried the strike demands to the Edgewater management. They learned that the demand concerning lunch would be met, that the matter of recognition would have to be decided in Dearborn, and that the strike leaders "would be forever banned."<sup>72</sup> A few days later in a phone conversation with Edsel Ford dealing largely with the employment of workers at the plant, Plant Manager E. A. Esslinger stated, "When we hire we will take men from other parts of N[ew] Jersey and not local men." He also informed Edsel that he had refused to meet the strike committee, which led Edsel to say, "Be careful - section 7A of code."<sup>73</sup>

As at Chester, the N.L.B. attempted to mediate the dispute, and Senator Wagner arranged a meeting in the offices of the New Jersey N.R.A. for October 18. Acting on the advice of the prominent attorney, Congressman James M. Beck, Louis Colombo advised Brown to attend the meeting and to deny any unfounded charges against the company but to confine himself to that and to refer all other matters to Dearborn.<sup>74</sup>

As advised, Brown appeared at the New Jersey N.R.A. headquarters on the morning of the 18th, but when it was suggested that he meet with the strike committee, which was present in another room in the building, Brown refused and said his instructions were to meet only with the "N.R.A. Labor Board." After calling Dearborn, however, and after being presented with a formal request from the

<sup>71</sup> Transcript of Shorthand Notes of Conference at the Office of the New Jersey Recovery Board, Oct. 18, 1933, pp. 12-13, 18-26, N.R.A. Drawer 642; W. M. L[eiserson] memorandum, Sept. 29, 1933, N.R.A. Drawer 642; J. T. Ingram report, Sept. 29, 1933, Acc. 52, Box 12, Ford Archives; Stenographic Report of Oct. 19 Conference, pp. 11-15, Acc. 52, Box 12, Ford Archives; *Newark Evening News*, Sept. 29, 1933.

<sup>72</sup> Thomas H. Wright, "Why Ford's Men Strike," *Christian Century*, Vol. L (Nov. 29, 1933), pp. 1,501-1,502.

<sup>73</sup> Conversation of E. Ford and Esslinger, Oct. 9, 1933, Acc. 52, Box 12, Ford Archives.

<sup>74</sup> Memoranda of phone conversations between Colombo and Beck, Oct. 17, 1933, Doss to Brown (dictated by Colombo), Oct. 17, 1933, Acc. 52, Box 12, Ford Archives; *New York Times*, Oct. 19, 1933.



strike committee, Brown agreed to meet with the committee in the Edgewater plant the next day.<sup>75</sup>

At the October 19 plant meeting the strike committee formally presented its demands. Brown replied that all policy issues would have to be referred to Dearborn but that he could state that the workers could have 45 minutes for lunch, during which time they could leave the plant. Most of the discussion related to the question of the re-employment of the strikers. Brown pointed out that despite the fact that letters had been sent out terminating the service of the strikers, 300 strikers had already been re-employed. He insisted that no employee had been "blackballed," but he noted at the same time that not all strikers were regarded as employees any longer.<sup>76</sup> Reilly summed up the workers' reaction to the conference when he informed the New Jersey N.R.A. that Brown was "asking the fellows to buy a yellow brick."<sup>77</sup>

The reply to the strikers' demands was worked out in Dearborn, and Brown was instructed on October 31 to transmit the company's answer to the strike committee "without any formal meeting for the purpose of discussing same." Brown presented the company's unsigned statement to the committee the next day. The statement claimed that three of the four demands were already company practice. The lunch demand had previously been more than met, recognition of collective bargaining was required by Section 7(a), and the workers would be re-employed without discrimination, each applicant for employment being considered "strictly on the basis of merit." As regards the wage-and-hour issue, the company stated that its wage rates were the highest for the same class of work in the "metropolitan industrial district," that wages would be increased as business conditions permitted, and that the 40-hour week would be maintained when the law and business conditions permitted.<sup>78</sup>

To the workers, the Ford reply was a "delayed ambiguous statement" that met unequivocally only their demand concerning the lunch hour. There was no guarantee that the idle strikers would be re-employed or that meaningful collective bargaining would take

<sup>75</sup> Transcript of Oct. 18 Conference, pp. 3-11, 30-50, N.R.A. Drawer 642.

<sup>76</sup> Stenographic Report of Oct. 19 Conference, Acc. 52, Box 12, Ford Archives. It is difficult to reconcile Brown's statements at this conference with Charles Edison's report to the White House on Oct. 21 that Ford would treat the workers as striking employees. K. memo for McIntyre, Oct. 21 [1933], O.F. 407-B, Box 18, F.D.R. Library.

<sup>77</sup> Ford Conference at State Headquarters, Oct. 19, 1933, p. 17, N.R.A. Drawer 642.

<sup>78</sup> Doss to Brown, Oct. 31, 1933, and attached statement, Acc. 52, Box 12, Ford Archives; typed sheet dated Nov. 1, 1933, Acc. 52, Box 12, Ford Archives. The press reported that Senator Wagner regarded the company's reply as evidence that Ford was bargaining collectively with the strikers. *New York Times*, Nov. 3, 1933.

place.<sup>79</sup> The strikers' counsel, J. Glenn Anderson, had already filed a petition with the President accusing Ford of refusing to bargain and complaining that working conditions at Edgewater were deplorable, and Anderson was soon to file a supplementary petition which further elaborated the strikers' grievances.<sup>80</sup>

Since the Ford statement had noted that recognition of the right to bargain was company practice, the strike committee informed Edsel by letter on November 9 that it was prepared to meet with any duly authorized Ford representative to discuss the strikers' demands. Edsel replied on November 21 that Brown was authorized to meet with the committee and that "proper consideration" would be given to whatever committee members had to say.<sup>81</sup> The kind of "consideration" the strikers could expect was indicated the same day in a letter Brown sent to his superiors in Dearborn. Brown noted that of the 1,400 men working in the plant at the time, only 25 were union members. "We checked the men very carefully," Brown declared, "and do not intend to take back all the men that are out on strike [approximately 600]. However, if any of these men can prove their sincerity and loyalty to the Company, we will be glad to consider their case. Frankly speaking, we do not believe there will be over 50 more men now out on strike that we will again use in the plant." The strike, Brown thought, had been "a blessing in disguise" because it had helped to "break up the cliques" in the plant.<sup>82</sup>

Following the receipt of Edsel's letter, the strike committee arranged a meeting with Brown, which was held on November 27. Brown accepted the committee as representing only the men still on strike, whose number was estimated by him as 400 and by the strikers as 1,200, and claimed that he represented the men back at work. The committee concentrated on the questions of collective bargaining and the re-employment of the strikers and did not take up the grievances enumerated in the petitions submitted to the President. Reilly asked Brown if he would take back the strikers

<sup>79</sup> Report of strikers' meeting, Nov. 2, 1933, Acc. 52, Box 12, Ford Archives; *Newark Evening News*, Nov. 2, 3, 1933.

<sup>80</sup> "In the District of the State of New Jersey to the Honorable Franklin D. Roosevelt," and supplementary petition with same title, N.R.A. Drawer 642. For Brown's comments on the petitions' charges, see Brown to Doss, Nov. 21, 1933, Acc. 52, Box 12, Ford Archives.

<sup>81</sup> Strike committee to E. Ford, Nov. 9, 1933, E. Ford to Wickens, Nov. 21, 1933, N.R.A. Drawer 642.

<sup>82</sup> Brown to Doss, Nov. 21, 1933, Acc. 52, Box 12, Ford Archives. Brown noted that 75 per cent of the strikers lived in Kearny and Bayonne and that it was unlikely that the company would "ever secure the right type of worker as long as we continue to pick men from these communities. We believe by going to the better communities, north and west of the plant, we will secure a much better class of worker. . . ."

as a group and then permit the employees to determine by an election whom they wished to represent them in collective bargaining. Brown replied that he would take back individuals as needed, according to merit, but that he would not re-employ the strikers as a group and that the company would have nothing to do with an election. He would not lay off anyone then at work to make room for the strikers, and he would not set a date by which time the strikers would be re-employed. The strike committee complained to the New Jersey N.R.A. two days later that it was Ford's purpose "to carry on with gestures as long as possible in order to defeat the ultimate purpose for which the men are striking, namely, to bargain collectively with the Ford Motor Co., through their chosen representatives."<sup>83</sup>

The failure of direct negotiations to satisfy the striking Edgewater workers caused the N.L.B. to take a hand in the matter once again. "Why don't you take these poor fellows that are still out on strike back to work?" Senator Wagner asked Brown on December 11. Brown assured Wagner that he had not refused to deal with anyone applying for re-employment and that the active unionists who had approached the company had been taken back in every case. Brown informed Dearborn that he had tried to be "very careful" in talking with Wagner so that "no undesirable publicity might be given in connection with the showing of the new cars."<sup>84</sup>

When the N.L.B. failed to follow up Wagner's call to Brown with any positive action, President William Green of the A.F. of L. stepped into the dispute and on December 21 presented a statement of the facts in the case to Johnson. Green accompanied his brief with a letter in which he charged that Ford had violated Section 7(a) and requested that he be compelled to comply with the law and to bargain with the union with a view to effecting a settlement providing for the return of the strikers. Johnson, in turn, referred the matter to the N.R.A.'s Compliance Division for investigation.<sup>85</sup> A few weeks later both Green and William Davis, the National Compliance Director, advised Reilly that the men should return to work pending the N.R.A.'s disposition of the case. The strikers, their ranks depleted and the attendance at their meetings dwindling,

<sup>83</sup> Brown to Doss, Nov. 28, 1933, and attached report of Nov. 27 meeting, Acc. 52, Box 12, Ford Archives; Tepper Hearing, Nov. 29, 1933, pp. 2, 7-8, 10-11, N.R.A. Drawer 642.

<sup>84</sup> Brown to J. Crawford, Dec. 12, 1933, Acc. 52, Box 12, Ford Archives.

<sup>85</sup> Report of strikers' meetings, Dec. 13, 18, 1933, Acc. 52, Box 12, Ford Archives; Green to Johnson, Dec. 21, 1933, and Brief of Facts on Behalf of the Striking Employees of the Edgewater, New Jersey, Plant of the Ford Motor Co., N.R.A. Drawer 642; *Newark Evening News*, Dec. 18, 1933; *New York Times*, Dec. 27, 1933.

as Ford's labor spies had reported, called off the strike on January 8.<sup>86</sup>

On January 17 Davis advised the Ford Motor Company of the complaint that had been filed with the N.R.A. alleging violation of Section VII of the automobile code. Replying for the company on February 2, B. J. Craig, the company secretary, informed Davis that the company had not violated Section 7(a) of the N.R.A. or Section VII of the code, that it had engaged in collective bargaining whenever requested by its employees to do so, that the men on strike had left the company's employ voluntarily, and that those who applied for re-employment would be re-engaged when production warranted in accordance with the company's rights as guaranteed by the code's merit clause.<sup>87</sup>

Davis, who regarded Edgewater as "a border line case well handled by the company and badly handled by the men," decided that the conflicting versions of the strike events presented by the company and the strikers required further examination. The Compliance Board accordingly scheduled a hearing for February 23, but the Ford Motor Company, regarding its answer of February 2 as sufficient, refused to attend. Thus, no one was present at the hearing from Ford to challenge the workers' account of their grievances against the company. As in the case of the Chester affair, however, one may well question whether anything more than the form of collective bargaining had been observed by the Ford Motor Company at Edgewater and whether it had not practiced discrimination in the re-employment of the strikers. As late as February 2, for example, although there were several hundred more persons employed at Edgewater than at the time the strike began, 350 of the strikers had still not been returned to their jobs despite the fact that over 200 of them had applied for reinstatement.<sup>88</sup>

After studying such evidence as was available to it regarding both the Chester and Edgewater labor disturbances, the National Compliance Board on March 15, 1934, informed Johnson that the Chester affair had been a lockout designed to break up the self-organization of the employees and to stop collective bargaining and that it had been followed up at Chester and Edgewater by the

<sup>86</sup> Doss to Cameron, Jan. 8, 1934, and attached report of strikers' meeting of Jan. 8, 1934, Acc. 52, Box 12, Ford Archives; Wickens to Davis, Jan. 18, 1934, N.R.A. Drawer 642; *Newark Evening News*, Jan. 9, 1934.

<sup>87</sup> Davis to Ford Motor Co., Jan. 17, 1934, Craig to Davis, Feb. 2, 1934, N.R.A. Drawer 642.

<sup>88</sup> Davis to Johnson, Feb. 5, 1934, Davis to Ford Motor Co., Feb. 15, 17, 1934, Craig to Davis, Feb. 2, 20, 1934, N.R.A. Drawer 642; National Compliance Board, Hearing on Ford Motor Co. Strike at Edgewater, Feb. 23, 1934, N.R.A. Box 7264.

company's refusal to bargain and by discrimination in re-employment "with the result that all organization of employees within these plants and all collective bargaining has been eliminated." The Board recommended that the case be referred to the Attorney General with the request that he institute proceedings against Ford in order to compel him to abide by the law.<sup>89</sup>

From a public-relations standpoint, it was felt within the N.R.A. that it was unwise to give the case any publicity unless the government was sure of victory. Charles Michelson, director of the N.R.A.'s Public Relations Division, advised against any publicity until the Attorney General was prepared to proceed "with speed and vigor." He contended that the effect on the N.R.A. would be "inestimably bad" if it became known that the case had been referred to the Attorney General and that nothing had come of it or if a grand jury, after hearing the evidence, refused an indictment. Johnson agreed that "absolutely no publicity is to be given this case,"<sup>90</sup> and, as a matter of fact, the public was never made aware of the fact that the Compliance Board had recommended prosecution and that the possibility of implementing this recommendation had been the subject of considerable controversy within the government.

The Justice Department, like the N.R.A. Public Relations Division, was unwilling to prosecute unless it was certain of victory, and it did not think that the available evidence (the Justice Department, of course, had no record of the exchange of communications noted above between the Ford Motor Company and the branch plants) was likely to produce this result. "You will appreciate," Assistant Attorney General Harold Stephens wrote Davis on March 16, "that a suit against the Ford Motor Company would be of such national importance and would be so ably and vigorously defended that it should be based only upon the clearest and highest proof of violations of the section involved. The proof referred to must necessarily be of such evidentiary value as to render the Government's position on the facts impregnable." In subsequent communications Stephens pointed out that the auto code's merit clause would make it difficult to prove that discrimination had been practiced and that the behavior of the workers at both plants would weaken the charge that the company had refused to bargain with its employees.<sup>91</sup>

<sup>89</sup> National Compliance Board to Johnson, Mar. 15, 1934, N.R.A. Drawer 642.

<sup>90</sup> Johnson to Davis, Mar. 24, 1934, and enclosed memorandum of Michelson, Mar. 19, 1934, N.R.A. Drawer 642.

<sup>91</sup> Stephens to Davis, Mar. 16, 1934, N.R.A. Drawer 642; memorandum from J. W. Randal to Johnson *et al.*, Apr. 17, 1934, N.R.A. Drawer 642.

Despite objections from the Justice Department, J. C. Randal, a Compliance Division attorney, strongly urged that the case be pressed to a decision. He was convinced that the evidence added up to a prima-facie case of conspiracy on the part of the Ford Motor Company to violate Section 7(a). "No person," he wrote, "can read the records in these cases without being convinced beyond any doubt, reasonable or otherwise, that the Ford employees were *restrained, coerced, and interfered* with in their efforts to organize for their mutual benefit and protection." Unless demurrer were sustained, he believed that "barring jury fixing, it is impossible to lose the case on the facts, even given only mediocre trial talent." He pointed to the procedural advantages and the heavier penalty that could be imposed if the government proceeded by indictment for conspiracy rather than for the substantive offense alone.<sup>92</sup>

No doubt Randal was influenced, at least in part, to take the position he did because of his strong bias against Ford. "High pressure publicity and pious professions to the contrary notwithstanding," he stated in a memorandum on the case, "Ford is, and has been as ruthless an exploiter of labor and small business as this country has ever known." It is not surprising that Blackwell Smith, the Compliance Division's associate counsel, thought Randal's conclusions "intemperate." Like Stephens, he did not think the evidence strong enough for the government to proceed. He welcomed the prospect of having "a really tough, big fellow to go after," and if it could have been done without publicity, he would have been willing "to proceed against him on a complaint and develop our case in court," but he thought this would be "a bit foolhardy" under the existing circumstances.<sup>93</sup>

In a final effort to convince his superiors and the Justice Department, Randal prepared a detailed summary of the case, which he presented to Franklin S. Pollak, the Compliance Division's counsel, on or about April 23, but the Justice Department was not swayed by this brief.<sup>94</sup> It continued to believe that the government's "posi-

<sup>92</sup> Randal to Davis, Mar. 15, 1934, N.R.A. Drawer 642; memorandum from Randal to K. Johnston, Apr. 2, 1934, memorandum from Randal to Johnson *et al.*, Apr. 17, 1934, N.R.A. Drawer 642.

<sup>93</sup> Memorandum from Randal to Johnson *et al.*, Apr. 17, 1934, Smith to A. G. McNight Apr. 17, 1934, N.R.A. Drawer 642.

<sup>94</sup> Randal to Pollak, Apr. 23, 1934, Pollak to William G. Rice, Aug. 28, 1934, Randal, In re: Ford Motor Co., N.R.A. Drawer 642. In the Detroit area, complaints that Ford was violating Section 7(a) were brought to the attention first of the Detroit Regional Labor Board and then after Mar. 25, 1934, of the Automobile Labor Board, although the latter was not too sure it had any jurisdiction over Ford since Ford had not been a party to the settlement that led to the board's establishment. The complaints involved the issue of discrimination because of union activity and were nearly all lodged by members of the Mechanics Educational Society of America, an independent organization of tool and die



tion on the facts" was not sufficiently strong to warrant the prosecution of Ford for alleged violation of Section 7(a) of the N.I.R.A.

To the end, thus, Ford was able to pursue without successful challenge his policy of minimum accommodation to the principles and purposes of the N.I.R.A. At no significant cost to himself, he had once again provided evidence of the independent character of his judgment and of his unwillingness to allow himself to be governed by the actions of his fellow automobile manufacturers or, for that matter, the wishes of government functionaries. Also, of import for the future, Ford, by his behavior during the two years the N.I.R.A. was in effect, had made it clear that the organized automobile workers were to face determined opposition in their efforts to bring unionism to the plants of the Ford Motor Company. Whatever the future might bring, however, Ford no doubt felt his judgment as regards the N.I.R.A. vindicated when the Supreme Court on May 27, 1935, declared the statute unconstitutional and thus wrote finis to one of the most interesting chapters in the early history of the New Deal.

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makers, which had organized some of Ford's workers. Several workers were reinstated when their allegations were referred to the company by one of the boards noted above. In one unusual case, the company, although unwilling to reinstate the M.E.S.A. member alleging discrimination, agreed to hire in his place any union member the M.E.S.A. suggested. The case was settled on this basis. See Cases 46 and 78 in D.R.L.B. Box 282 (the D.R.L.B. records are part of the N.L.B. records), and A.L.B. Drawer 3998 (the A.L.B. records are part of the N.R.A. records).

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## From Benevolence to Business: The Story of Two Savings Banks\*

*\* This comparative study deals with objectives, administration, and portfolio policies of two banks that were among the earliest institutional lenders in America. Founded to assist the "frugal poor," both banks faced the handicaps of provincialism, capital immobility, and regulation in their efforts to enlarge their services to the community. Both contributed much to a growing public understanding of banks and banking.*

Those economic historians and economists who seek to utilize business histories to formulate generalizations are frequently confronted with the problem of not knowing how representative the subjects of the business histories really are. The primary aim of this essay is to attempt to provide a firmer basis for generalizations concerning the role of mutual savings banks in the development of antebellum America; a period when — it is easily forgotten — the mutuals were almost the only institutional lenders.<sup>1</sup>

In our study of the Savings Bank of Baltimore, we concluded that the early history of this institution appeared "to have been typical of savings banks founded in large cities in the second decade of the nineteenth century."<sup>2</sup> This conclusion was based on a comparison of our findings with the records of the Comptroller of the Currency and existing studies of other savings banks.<sup>3</sup> Subsequent research

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<sup>1</sup> Emerson W. Keyes, *A History of Savings Banks in the United States* (2 vols.; New York, 1876), Vol. I, pp. 114-115. (Hereafter cited as Keyes, *Savings Banks*.)

<sup>2</sup> P. L. Payne and Lance E. Davis, *The Savings Bank of Baltimore, 1818-1866: A Historical and Analytical Study* (Baltimore, 1956), p. 21.

<sup>3</sup> For example, F. P. Bennett, Jr., *The Story of Mutual Savings Banks* (Boston, 1924); Charles E. Knowles, *History of the Bank for Savings in the City of New York, 1819-1929* (New York, 1929), hereafter cited as Knowles, *New York*; R. W. Thon, *Mutual Savings*

into the records of the Provident Institution for Savings in the Town of Boston has strengthened our belief in the representative nature of the Savings Bank of Baltimore.<sup>4</sup> This article contrasts the development of the two savings banks and deals, in particular, with the evolutionary changes in the two banks' philosophies, their administrative machineries, and their portfolio policies.

The cities in which these two banks were located possessed excellent harbor facilities and were consequently largely oriented towards trade and commerce.<sup>5</sup> Apart from this, however, they were quite dissimilar. Boston has long been considered the birthplace of "Yankee" Americanism, but Baltimore, though situated north of the nation's capital, is culturally a southern city. Furthermore, in the first half of the nineteenth century, Boston became the hub of a growing industrial complex that included Massachusetts, southern Maine, and New Hampshire, while Baltimore remained primarily a commercial entrepôt serving the agricultural hinterlands of Pennsylvania and the middle South.

#### THE PHILOSOPHY AND CUSTOMERS OF THE BANKS

There were no savings banks in the United States before 1816, but in the following four years mutuals were opened in most of the major cities of the northeast. Both the Provident Institution for Savings in the Town of Boston (1816) and the Savings Bank of Baltimore (1818) were established during this formative period. The founders of these two banks, like their counterparts in other northeastern cities, believed that savings banks would enable the less fortunate classes of society to better themselves in a manner which would avoid the dangers of moral corruption traditionally associated with outright charitable institutions.<sup>6</sup> As a result, the leading citizens

*Banks in Baltimore* (Baltimore, 1935); Weldon Welpling, *Savings Banks in New York State* (Princeton, New Jersey, 1938); J. M. Willcox, *A History of the Philadelphia Savings Fund Society, 1816-1916* (Philadelphia [c. 1916]). (Hereafter cited as Willcox, *Philadelphia*.)

<sup>4</sup> Lance E. Davis, "United States Financial Intermediaries in the Early Nineteenth Century: Four Case Studies" (Ph.D. thesis, Johns Hopkins University, 1956).

<sup>5</sup> Both the 1820 and the 1860 censuses rank Baltimore third and Boston fourth among American cities. In 1820 Baltimore had 62,700 residents and Boston 43,300. Forty years later, the populations were 212,400 and 177,800 respectively. J. D. B. DeBow, *Statistical View of the United States: A Compendium of the Seventh Census* (Washington: Beverly Tucker, 1854), p. 192; United States Department of the Interior, *Eighth Census of the United States: Miscellaneous Statistics* (Washington, D. C.: G. P. O.), p. xviii.

<sup>6</sup> Compare, for example, the following typical statements by directors of the two institutions:

There are on the books of the Institution some pleasing instances of the rapid increase in small sums regularly deposited by persons who, persevering in economy and sobriety, are enabled weekly to save a part of their earnings, and thus secure for themselves and

of Boston and Baltimore felt that participation in the administration of the savings banks in their cities was an integral part of their civic duties.

The founders of the banks, wishing to inspire confidence, first opened their doors to all, rich and poor alike, but from the start the intention was ultimately to restrict the depositors to the "frugal poor."<sup>7</sup> As both banks were an almost instantaneous success (deposits flowing in from all classes of the community), they soon moved to restrict their depositors. The methods used, however, differed in some respects. As a first step, both banks placed a limit on the size of an individual's weekly deposit. Such action, it was felt, would not only prevent the wealthy classes from using the banks as a depository for their funds but would also reduce the danger of panic withdrawals.<sup>8</sup> Nevertheless, these restrictions failed to prevent some depositors from accruing large sums in their savings accounts. Both banks were therefore forced to adopt other techniques to overcome this problem.

In Boston the directors decided that a depositor whose account exceeded \$500 was to be paid no extra dividends on the balance in excess of that amount and his regular interest payments were not to be compounded.<sup>9</sup> It was thought that these measures would effectively discourage the wealthy depositor. In Baltimore the

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their families a resource in sickness and old age. How different must be the hopes and future prospects of the poor wretches who spend a like proportion of their earnings in grog shops to the utter ruin of themselves, and the misery of their families; besides forfeiting all claims to the mercy of an offended Deity.

Savings Bank of Baltimore, "Minutes and Proceedings of the Board of Directors," Jan. 14, 1819.

. . . it was the original and sole design of the institution to foster and encourage among those classes of society whose education and actual situation exposes them to the dangers of improvidence and loss of the earnings of their industry, habits of economy and a spirit of frugality and savings; and to take care to preserve, and put at reasonable interest the savings of this description of persons. . . .

Provident Institution for Savings, "Records of the Board of Trustees," Dec. 26, 1821.

<sup>7</sup> Both the Savings Fund Society (Philadelphia) and the Bank for Savings (New York) also set off by soliciting deposits from all, but they too soon began to discourage wealthy depositors. Willcox, *Philadelphia*, pp. 45-46; Knowles, *New York*, p. 91.

<sup>8</sup> In Boston the directors limited weekly deposits to \$100 throughout the ante-bellum period, though an exception was made in the case of merchant seamen who, because of the irregularity with which they were paid, were permitted to deposit their entire wage. In Baltimore, although the limit was subject to wide fluctuations, it was always at a much lower level. The limit was originally set at \$20 a week and it remained at that level until 1831, when it was raised to \$30, but within a year it was reduced to \$10. After only a few months the limit was again raised to \$50 where it remained until 1839. In that year the limit was reduced to \$20, no further changes being made before 1860. Similar limits were also adopted by the Philadelphia Savings Fund Society. There the limit was in the form of an annual limitation (\$500 before Feb., 1828, and \$200 thereafter). Willcox, *Philadelphia*, pp. 49-50.

<sup>9</sup> Originally, the limit had been set at \$100, but soon this figure was increased to \$500 and then in Feb., 1819, to \$1,000. However, the higher limit induced many wealthy persons to open accounts, and, as a result, in Dec., 1821, the limit was again reduced to \$500, at which level it remained throughout the rest of the period.

directors of the Savings Bank first considered placing a limit on total deposits, but they abandoned the idea (for fear of penalizing the depositor who had really learned the lessons of thrift) in favor of the more direct method of depositor restriction. This scheme involved a periodic examination of all depositor accounts to ascertain whether the depositors could still be considered members of the "industrious poor." Five times in the years before 1860 the directors ordered such an examination; and, as a consequence of these inspections, a substantial number of depositors who were not of the "laboring poor" were asked to close their accounts.<sup>10</sup>

That the Savings Bank did not adopt the cheaper "deposit limit" method employed by the Provident can probably be explained by reference to the investment alternatives open to savers in the two cities. In Boston a legitimate depositor whose account had reached the limit of \$500 could have placed any further savings in "The Big Savings Bank," as the Massachusetts Hospital Life Insurance Company was called.<sup>11</sup> The Massachusetts Hospital Life was a semi-benevolent institution that, from 1823, undertook to manage the investment of deposits (of not less than \$500) in trust. Moreover, this institution was as safe as the Provident and paid a substantial return to its depositors. In Baltimore no such investment alternative existed; and, had a limit been imposed, the more thrifty depositor would have had no option but to make risky investments himself or consume or hoard the amount he had saved over and above the limit. Because the directors of the Savings Bank of Baltimore did not want to penalize the thrifty person, they were forced to adopt the more expensive — although more flexible — depositor restriction scheme.<sup>12</sup> It is perhaps noteworthy that in every year after 1827 the average balance per account in the Savings Bank of Baltimore was at least one-third greater than the comparable figure for the Provident Institution.<sup>13</sup> An examination of the individual accounts indicates that this difference is a reflection of the absence of large accounts on the Provident's books.

<sup>10</sup> In 1828 the deposits returned amounted to about 8 per cent of the total deposits; in 1839, to about 12 per cent; and in 1854 to about 2 per cent.

<sup>11</sup> The first actuary of the Hospital Life, Dr. N. Bowditch, "on one occasion [1824] referred to the company as 'a species of Savings Bank for the rich and middle class of Society.'" Gerald White, *The Massachusetts Hospital Life Insurance Company* (Cambridge, 1955), p. 34.

<sup>12</sup> The New York Bank for Savings appears to have adopted the same policy as the Savings Bank of Baltimore. A letter from the Bank's directors to Senator Van Schank (Feb., 1836) says: "the general instructions given to the Accountant and Attending Committee [are] not to receive deposits from any persons who in their judgment are capable of investing for themselves. This fact becomes apparent from the annual reports in which the description and occupations of the depositors are set forth." Knowles, *New York*, p. 91.

<sup>13</sup> See Table I.

TABLE I

**TOTAL AMOUNT ON DEPOSIT, NUMBER OF ACCOUNTS, AND AVERAGE  
BALANCE PER ACCOUNT, PROVIDENT INSTITUTION AND THE SAVINGS  
BANK OF BALTIMORE, 1818-1861**

January 1 *	Number of Accounts		Total Amount on Deposit <sup>b</sup> (dollars)		Average Balance per Account (dollars)	
	P.I.	S.B. of B.	P.I.	S.B. of B.	P.I.	S.B. of B.
1818	n.d. <sup>c</sup>	—	61,897	—	n.d.	—
19	1,188	n.d.	150,383	11,900	127	n.d.
1820	2,080	256 <sup>d</sup>	296,292	19,999 <sup>d</sup>	142	78 <sup>d</sup>
21	3,294	450	391,605	45,169 <sup>e</sup>	119	100
22	4,661	n.d.	593,316	n.d.	127	n.d.
23	5,502	n.d.	502,896	n.d.	91	n.d.
24	4,273	n.d.	527,330	n.d.	123	n.d.
25	4,895	466	625,334	n.d.	128	n.d.
26	5,415	734	715,673	n.d.	132	n.d.
27	5,734	891	736,972	n.d.	129	n.d.
28	6,278	1,079	855,631	199,047	136	184
29	6,763	1,280	924,659	237,431	137	185
1830	7,381	1,526	986,959	285,109	134	187
31	8,199	1,724	1,118,618	348,629	136	202
32	9,243	2,029	1,333,821	422,512	144	208
33	10,153	1,941	1,552,221	445,300	153	229
34	11,579	2,224	1,720,940	526,375	149	237
35	12,104	2,050	1,804,093	518,110	149	253
36	13,324	2,500	2,020,389	664,149	152	266
37	13,442	2,902	2,037,514	807,214	152	278
38	13,214	3,030	2,035,425	859,541	154	284
39	13,199	3,507	2,006,821	1,020,991	152	291
1840	13,642	3,942	2,071,095	1,085,254	152	275
41	14,027	4,143	2,194,784	1,166,372	156	282
42	15,273	4,141	2,427,081	1,142,903	159	276
43	15,123	3,936	2,356,016	992,900	156	252
44	16,248	4,226	2,542,302	1,099,521	156	260
45	18,524	5,056	2,904,903	1,284,999	157	254
46	19,470	5,628	3,115,584	1,332,018	160	237
47	19,938	6,207	3,203,201	1,459,946	161	235
48	20,426	6,970	3,453,574	1,608,859	169	231
49	20,351	7,686	3,295,350	1,761,371	162	229
1850	20,386	8,392	3,300,689	1,988,334	162	237
51	22,245	9,404	3,654,689	2,237,618	164	238
52	23,791	10,742	4,079,646	2,567,623	171	239
53	25,626	11,914	4,729,383	2,887,899	185	242
54	28,246	12,966	5,251,850	3,236,466	186	250
55	27,870	15,170	5,207,188	3,754,824	187	248
56	27,927	16,209	5,298,713	4,021,150	190	248
57	28,835	17,860	5,714,491	4,519,738	198	253
58	28,163	17,821	5,816,674	4,609,206	207	259
59	29,035	18,834	6,601,707	4,939,198	227	262
1860	30,631	20,276	6,501,950	5,518,116	212	272
61	32,075	20,956	6,984,056	5,985,734	218	286

\* The Savings Bank of Baltimore figures are those for Dec. 31 of the previous year.

<sup>b</sup> "Total Amount on Deposit" represents the total balances due depositors including interest credited to their accounts.

<sup>c</sup> n.d. signifies that no data are available.

<sup>d</sup> Jan. 17, 1820.

<sup>e</sup> Jan. 1, 1821.

SOURCE: Provident Institution for Savings in the Town of Boston, "Deposit Abstract Book"; Savings Bank of Baltimore, "Minutes and Proceedings of the Board of Directors."



Since the banks' founders wished to prove that thrift was rewarding, it was necessary that the depositor earn a "goodly" return. For both moral and economic reasons the directors of both banks chose a rather complex method of paying interest on depositors' savings. First, all depositors were entitled to a set rate of 4 per cent interest on their accounts — a rate that the directors thought could be maintained even in years of adverse economic conditions — and, second, the banks' earnings not distributed in this manner were paid as extra dividends to those depositors who kept their savings in the bank for periods over one year, the extra-dividend rate being calculated to discriminate in favor of long-standing deposits.<sup>14</sup> The Savings Bank of Baltimore paid a regular dividend of 4 per cent per year (compounded semiannually) and, except for three years (1818–1821) when the regular dividend was set at 5 per cent, the Provident paid a like interest. In Baltimore extra dividends were declared every third year but in Boston distribution was made at five-year intervals.

In both cities the rate of the extra dividend fluctuated with economic conditions and the banks' earnings. Until 1842 the Savings Bank of Baltimore paid, on the average, slightly higher total dividends than did the Provident; after this date, however, the Provident's payments were considerably higher than those of the Savings Bank.<sup>15</sup> The average annual interest rate paid by both banks on a (hypothetical) deposit made in 1818 and still outstanding in 1860 was about 6 per cent (no allowance being made for compound interest).<sup>16</sup> Since neither bank accumulated large reserves of undistributed earnings and since the cost of operating both banks was very low, it appears that the explanation of the differences in dividend payments lies in the relative earning power of the assets of the two banks and in the techniques of dividend payment.

An examination of the Savings Bank's portfolio shows that the bank realized a gradual increase in the returns on its assets over the period. This increase was not associated with the introduction of new assets, but merely reflected an over-all increase in earning power. Moreover, the increase in earnings was almost entirely offset by an increase in the proportion of depositors qualifying for extra

<sup>14</sup> For example, in 1827, the Savings Bank of Baltimore declared three extra dividend rates: one applicable to deposits which had been on the books for over twelve months but under two years (3 per cent), one to deposits on the books for over two but under three years (4 per cent), and one to deposits that had been on the books for three years and longer (6 per cent).

<sup>15</sup> The actual averages are 6.4 per cent for the Provident Institution and 5.9 per cent for the Savings Bank of Baltimore.

<sup>16</sup> See Table II.

dividends.<sup>17</sup> With the exception of the years 1840-1843, dividends were thus fairly constant over the period.

The Provident's earnings, however, increased very rapidly in the years after 1842. This increase was due both to a general rise in the earning power of assets and to the increased returns that followed the shift in the bank's portfolio from low-earning short-term commercial bank loans to more profitable long-term loans

**TABLE II**  
**EXTRA DIVIDENDS PAID BY THE PROVIDENT INSTITUTION AND THE**  
**SAVINGS BANK OF BALTIMORE, 1818-1862 <sup>a</sup>**

Year	Provident Institution		Savings Bank of Baltimore	
	Rate	Rate per Year of Deposit (1) ÷ 5	Rate	Rate per Year of Deposit (3) ÷ 3
	(1)	(2)	(3)	(4)
1821	—	—	.035	.012
1822	.040	.008	—	—
1824	—	—	.060	.020
1827	.0921	.0182	.060	.020
1830	—	—	.045	.015
1832	.090	.018	—	—
1833	—	—	.060	.020
1836	—	—	.075	.025
1837	.095	.019	—	—
1839	—	—	.060	.020
1842	No Extra Dividend Declared			
1845	—	—	.030	.010
1847	.193	.039	—	—
1848	—	—	.060	.020
1851	—	—	.070	.023
1852	.200	.040	—	—
1854	—	—	.090	.030
1857	.200	.040	.070	.023
1860	—	—	.060	.020
1862	.150	.030	—	—

<sup>a</sup> The rates shown for the Provident Institution are those paid on deposits outstanding for five years or over, and those for the Savings Bank of Baltimore are those on deposits outstanding for three years or over.

SOURCE: Provident Institution, "Deposit Abstract Book"; Savings Bank of Baltimore, "Minutes and Proceedings of the Board of Directors."

<sup>17</sup> Both banks paid extra dividends only on those deposits on the books at the date of declaration. Thus any sum withdrawn prior to the dividend date did not qualify for any payment.

backed by personal security (in particular, personal security loans to industry).

Throughout the period, the Savings Bank's dividends would have appeared relatively higher, in relation to those of the Provident, had it not been for certain technical factors in dividend computation. Both banks paid dividends only on balances on the books at the date of declaration; but, whereas the Savings Bank declared extra dividends every third year, the Provident took such action only every fifth year. Thus, it was easier for the Savings Bank's depositors to qualify for the extra dividends than it was for the Provident's depositors; and in every year a greater proportion of the former bank's depositors received extra payments.

Once adopted, the extra dividend became a regular part of depositor payment. Although the two banks faced several depositor panics and numerous periods of economic depression without altering their dividend policy, only once, in 1842, was the value of their investments so seriously impaired that the directors felt impelled to use the accrued earnings to write down the depreciated assets.<sup>18</sup>

#### ADMINISTRATION

The administrative organization that was first adopted by the two institutions reflected the charitable intent of their founders, but the problems that accompanied success and growth could not be met with this early structure. Instead, professional managements—operating the institutions as businesses rather than charitable enterprises—were needed, and the administrations of both banks gradually evolved in this way.

##### (1) *The Directors*

The original charters placed the decision-making powers in the hands of boards of directors. These boards were elected annually by the body of corporators, and, to make the organization permanent, the directors were empowered to elect new members to this body.<sup>19</sup> Despite the differences in size, the duties of the two

<sup>18</sup> Instead of declaring extra dividends, the directors of the New York Bank for Savings originally allowed undistributed earnings to accumulate in a surplus account. It was not until 1852, when the state legislature limited surplus accounts to 5 per cent of deposits, that the directors, faced with confiscation, declared their first extra dividend. Once begun, the practice was continued and additional dividends were declared in 1855, 1856, and 1858. Knowles, *New York*, pp. 113 and 121.

<sup>19</sup> The only differences were in the names and size of the governing bodies. In Baltimore the board of directors was made up of 25 members (24 directors and a president elected by the directors) and in Boston the board of trustees was made up of 24 trustees, 12 vice presidents, and a president elected by the trustees and vice presidents.

boards (as outlined in the charters) were almost identical. Both initiated policy and administered the affairs of the bank, and, although both boards gradually relinquished these powers to the management group, they continued to choose the managers.

## (2) *Administrative Committees*

The two boards of directors were, at best, unwieldy decision-making units. Efficiency, therefore, dictated that subcommittees should be established to treat particular problems of a recurring nature. Although there is no evidence of any direct communications, the organizational structure chosen by the Baltimore Bank was almost identical with that selected by the Provident.

The original bylaws of both banks established a subcommittee to supervise the banks' day-to-day operations. In Boston this group, entitled the "Committee of the Week," had three members (two trustees and one vice president) and membership rotated monthly among the trustees and vice presidents, each one of whom was required to serve one month a year in this capacity. In Baltimore the committee was called the "Committee of the Month" and had only two members. There, too, membership rotated monthly and all directors were required to spend one month a year supervising the Bank's operations. During the banks' formative years, the committees opened the banks, served the public, kept the books, advised the boards on the investment of deposited funds, and administered the policies laid down by the boards. Under the original bylaws, the committees were the institutions' sole administrative organs and in this role they performed ably for a number of years. As the administrative tasks grew, however, the committees gradually ceded their functions to other groups, and, by 1860, they had retained for themselves only the task of preparing the banks' operating statements. In both banks the decline in the importance of the administrative committees was one manifestation of the change from amateur to professional management.<sup>20</sup>

In Baltimore investment decisions had originally been made by the board of directors, and in Boston the function had been performed by the administrative committee in consultation with the president. The success of the banks, however, brought a flood of deposits, deposits that had to be wisely and quickly invested. Ex-

<sup>20</sup> A similar shift can be seen in the history of the New York Bank for Savings, although in that institution the evolution proceeded much more slowly. In New York the "Committee of the Month" did not cede all of its administrative functions until the bank's administrative reorganization in 1877. Knowles, *New York*, pp. 131-132.

perience proved that the Savings Bank's board of directors was too unwieldy a body to make flexible investment decisions; and in Boston, the rotating membership of the administrative committee — a body already overburdened with other tasks — made implementation of a long-term investment policy very difficult.

In 1820, therefore, both banks established subcommittees to supervise the banks' investments in accordance with the broad investment policy outlined by the boards.<sup>21</sup> It was originally intended that these committees would be elected annually, but, because so many of the members were repeatedly re-elected — frequently as many as ten times — the banks were able to achieve a considerable degree of continuity in their investment policies.

The investment committee of the Savings Bank of Baltimore consisted of three directors, the president, and the secretary (replaced in 1832 by the treasurer). During the first years of its operation the committee seldom made any investment decision without first obtaining the approval of the full board. After 1824, however, the committee operated almost independently, normally turning to the board only for periodic routine approval.<sup>22</sup> In Boston the board of investment was slightly larger — three trustees, one vice president, and the president and secretary (enlarged in 1834 to include six trustees) — and, although in its first years the scope of its operations was similar to that of the Baltimore bank, it evolved in a quite different direction. Unlike the Baltimore committee, the board of investment ceded its powers in investment matters to the paid officers. By 1840, for example, the officers had become so accustomed to making investment decisions that the board found it necessary to issue a special order to limit new loans and renewals to those they had specifically approved.<sup>23</sup> Furthermore, an increasing number of policy decisions (decisions far divorced from investment) were made by the investment subcommittee and fewer and fewer by the trustees. In 1832, for example, the plan to erect a new bank building was first discussed by the investment committee, and only after their approval was it ratified (without debate) by the full board.<sup>24</sup>

Although by 1830 the entrepreneurial function had shifted to the board of investment, the evolutionary process was not yet complete.

<sup>21</sup> It is interesting to note that the New York Bank for Savings also established an investment committee in 1820. Knowles, *New York*, p. 66.

<sup>22</sup> Only once between 1826 and 1860 did the committee seek the board's approval before making a loan and this was on property outside the city.

<sup>23</sup> Provident Institution, "Records of the Board of Investment," Feb. 8, 1840.

<sup>24</sup> Provident Institution, "Records of the Board of Investment," Aug. 24, 1832, and "Trustees Records," Aug. 24, 1832.

The increasing complexity of problems that accompanied the growth of the Provident caused the investment committee members to rely more and more upon the president and treasurer for leadership in decision-making; and, except in a few cases in the years after 1840, the ordinary board members merely approved the action of the paid managers.

### (3) *The Officers*

Although both banks had opened for business with but a single paid officer, a secretary, rapid growth soon forced the directors to delegate some of the administrative tasks to salaried employees. Thus the early development of both banks was marked by the transfer of routine operations to paid clerks and the transfer of entrepreneurial decisions to salaried professionals, among whom the president emerged as the dominant figure. The evolution from benevolent to professional management was made necessary by the decisions of the institutions to accommodate *all* qualified depositors. Such a choice inevitably entailed growth, and growth necessitated managerial changes. Not all of the directors concurred in this decision; for example, the Provident charter had placed a limit on aggregate deposits, and although this restriction was lifted in December, 1820, a significant minority of the board of trustees voted against its removal.<sup>25</sup> Moreover, two subsequent attempts to reimpose an aggregate limit were defeated only after heated debate.<sup>26</sup> In each case the minority argued that growing business militated against the philanthropic principles animating the bank; but in each case the minority was forced to give way to a majority, led by the bank's officers, who realized that a benevolent institution could not function successfully as a financial intermediary.

By the outbreak of the Civil War, business leadership had replaced benevolence in both banks, but, although paid employees had taken over the day-to-day bank administration by 1830, the evolution in policy-making proceeded at a much slower rate.<sup>27</sup> In Baltimore this evolution took place within the board of directors. The minutes of that body indicate that, although the board continued to act on matters of fundamental policy, more and more frequently their

<sup>25</sup> The limit was first set at \$200,000, then raised to \$400,000, and finally removed altogether. Provident Institution, "Trustees Records," Nov. 10, 1818; July 18, 1820; Dec. 20, 1820.

<sup>26</sup> Provident Institution, "Trustees Records," March 25, 1829, and July 16, 1859.

<sup>27</sup> A similar evolution marks the early history of the New York Bank for Savings. In that institution the directors continued to play an important role both in policy-making and administration until 1877. Knowles, *New York*, pp. 131-132.



actions constituted nothing but *post facto* approval of management decisions. In Boston, on the other hand, the evolution of policy-making was associated with the growth in stature of the board of investment, and it was through dominance of that committee that the professional management assumed its policy-making function.

### THE BANKS' INVESTMENTS

As long as the aggregate volume of deposits was small, the banks could depend upon commercial banks to hold their funds; but as deposits grew, the risks entailed in this policy increased both for the mutuals and for the commercial banks of deposit. Thus, before many years had passed, both savings banks were forced to seek alternative investment outlets. Guided by safety rather than yield, both banks acquired bank stock and government bonds, and made private loans.<sup>28</sup> Nevertheless, the portfolios of the two banks displayed considerable differences in the relative importance and the internal composition of each classification of assets.<sup>29</sup>

#### (1) *Bank Stock*

Stock in local commercial banks was among the first assets acquired by both banks, but over the entire period the Provident's portfolio contained a larger proportion of these assets than did that of the Savings Bank of Baltimore. The first purchases of bank shares probably reflected the banks' needs for assets that were both liquid and divisible.<sup>30</sup> The long-term differences between the stock holdings of the two banks appear to have been a reflection of the quality of commercial banking in the two cities. In Boston the commercial banks had long enjoyed a reputation of conservatism and stability, and, among the larger banks, there was little danger of failure. This was not so in Baltimore. It had been the Baltimore branch of the Second Bank of the United States that had been most heavily involved in the embezzlement scandals, and the panic of 1834 had forced the Bank of Maryland, the city's oldest, largest, and supposedly strongest, institution to close its doors. Moreover, the value of Boston bank stock appears to have suffered far less from the

<sup>28</sup> The evidence indicates that most other savings banks also aimed at safety rather than yield in their investment policies. In their report of 1861, the Massachusetts Bank Commissioners reported that the investment goals of savings banks should be (1) safety, (2) convertibility, and, only then, (3) yield. Keyes, *Savings Banks*, Vol. 1, pp. 78-83.

<sup>29</sup> See Table III.

<sup>30</sup> The savings banks received their deposits in relatively small blocks and needed investments that could absorb these small amounts. At the same time bank shares were highly liquid since a fairly well-organized equity market existed in both cities.

**TABLE III**  
**SELECTED ASSETS EXPRESSED AS A PERCENTAGE OF TOTAL ASSETS,**  
**PROVIDENT INSTITUTION AND SAVINGS BANK OF BALTIMORE, 1820-1858**

End of Year	Bank		Stock		Public Funds		Total Loans		Loans on					Short- term Dis- counts	
	P.I.		S.B.		P.I.		S.B.		Formal Security		Real Estate		Personal Security	P.I.	
	P.I.		S.B.		P.I.		S.B.		P.I.		P.I.		P.I.	P.I.	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)		
1820	—	17	—	76	48	—	48	—	—	—	—	—	—	—	—
21	—	18	23	74	50	—	50	—	—	—	—	—	—	—	—
22	—	14	34	35	47	51	47	51	—	—	—	—	—	—	—
23	—	13	35	33	60	53	60	53	—	—	—	—	—	—	—
24	10	10	19	28	67	62	44	62	—	—	—	23	—	—	—
25 <sup>a</sup>	16	7	16	20	63	73	49	73	—	—	—	14	—	—	—
26 <sup>a</sup>	16	6	35	16	45	72	35	72	—	—	—	10	—	—	—
27 <sup>a</sup>	24	5	33	12	33	83	24	83	—	—	—	9	—	—	—
28 <sup>a</sup>	27	4	22	20	46	74	32	n.d.	—	n.d.	—	14	—	—	—
29 <sup>a</sup>	25	3	22	28	48	68	32	n.d.	—	n.d.	—	16	—	—	—
1830 <sup>a</sup>	24	3	23	24	47	74	35	n.d.	—	n.d.	—	11	—	—	—
31 <sup>a</sup>	32	2	23	5	37	92	21	n.d.	—	n.d.	—	16	—	—	—
32 <sup>a</sup>	34	2	16	10	42	86	16	46	—	39	—	26	—	—	—
33	34	2	18	9	48	89	20	47	—	42	—	28	—	—	—
34	33	2	12	12	51	85	31	44	—	41	—	20	—	—	—
35	30	3	11	15	54	78	22	38	—	40	—	32	—	—	—
36	33	5	12	16	52	73	21	38	—	35	—	32	—	—	—
37	29	7	11	18	54	67	22	35	8	32	—	24	—	—	—
38	30	6	16	22	47	66	19	35	12	31	—	15	—	—	—
39	30	5	14	26	50	62	17	30	20	32	3	10	—	—	—
1840	29	5	13	24	52	63	22	26	23	37	4	5	—	—	—
41	26	5	13	26	58 <sup>b</sup>	63	2	24	20	38	7	—	—	—	—
42	26	4	40	27	29	58	2	17	17	41	10	—	—	—	—
43	24	5	39	34	33	52	1	18	26	35	5	—	—	—	—
44	21	6	32	34	43	50	1	17	28	33	14	—	—	—	—
45	19	6	27	34	50	51	1	12	31	38	18	—	—	—	—
46	17	5	27	31	53	54	1	20	32	34	14	—	7	—	—
47	18	5	25	34	54	54	—	20	30	33	20	—	4	—	—
48	18	4	15	37	64	53	1	22	29	32	20	—	14	—	—
49	18	4	14	34	65	53	1	20	26	32	29	—	10	—	—
1850	17	3	12	30	66	55	1	26	22	30	21	—	23	—	—
51	15	3	12	29	69	59	2	28	23	30	18	—	26	—	—
52	14	3	12	28	68	57	1	29	28	29	27	—	9	—	—
53	28	2	12	19	57	61	2	34	32	27	22	—	—	—	—
54	26	3	11	24	59	64	2	38	37	26	19	—	—	—	—
55	25	2	12	31	56	58	1	32	34	26	21	—	—	—	—
56	19	2	11	30	67	60	1	35	31	25	30	—	—	—	—
57	17	3	11	30	67	58	1	34	32	24	27	—	—	—	—
58	17	2	14	43	61	49	1	24	35	25	22	—	—	—	—

<sup>a</sup> For 1825 through 1832 the figures for the Provident Institution are those for June 30.

<sup>b</sup> Includes railroad loan of \$700,000 = 29 per cent of total assets.

Note: Table may not be internally consistent due to rounding.

SOURCE: Provident Institution, computed from "Records of the Board of Investment"; Savings Bank of Baltimore, computed from "The Minutes and Proceedings of the Board of Directors."

effects of general economic fluctuations than did the issues of Baltimore's commercial banks.<sup>31</sup>

## (2) *Public Funds*

As public funds also combine the qualities of divisibility and liquidity, it is not surprising that they too were among the first assets acquired by the two banks. At first the banks limited their purchases to issues of the federal government, but by 1830 the Provident had included the bonds of Boston and Massachusetts, and the Savings Bank had added the bonds of Baltimore and Maryland.

Both banks appear to have looked upon their holdings of United States bonds as secondary reserves: federal issues were added in times of depression, when alternative investments were particularly risky, and were sold both to meet the "panic" demands of depositors and to free funds for other investment in times of prosperity. Until the 1840's the banks held about the same proportion of public funds. Both maintained a fairly constant proportion of local issues (about 10 per cent for the Provident and slightly more for the Savings Bank of Baltimore) and both adjusted their holdings of federal bonds to the prevailing economic conditions. After that date, however, the banks' policies diverge considerably. The Provident, to take advantage of new profit opportunities, invested its new deposits in manufacturing loans. The Savings Bank, on the other hand, increased the earning capacity of its portfolio by adding the funds of governmental bodies geographically far removed from Baltimore. Thus, while the Provident made no investment in "foreign" government issues, by 1860 the Savings Bank's portfolio had been expanded to include the issues of North Carolina, Kentucky, and Brooklyn.<sup>32</sup>

<sup>31</sup> For example, between April, 1839, and March, 1842, the prices of the bank shares that the Savings Bank of Baltimore held as assets fell by the following percentages: Bank of Baltimore, 20.5; Mechanics Bank, 13.3; Merchants Bank, 15; Western Bank, 25; Farmers and Planters Bank, 25; Union Bank, 25; and Franklin Bank, 70 (Savings Bank of Baltimore, "Minutes of the Investment Committee," April, 1839, through March, 1842); and it may be presumed that the Savings Bank invested only in the stock of the soundest banks. It is impossible to discover the average prices of the stocks of the 25 Boston banks in existence from 1839 to 1842, but even if the most unfavorable situation is taken, and an average of the highest 1839 prices of those stocks is compared with an average of the lowest 1842 prices, a fall of only 14% took place. (Joseph Martin, *Seventy-Three Years History of the Boston Stock Market* [Boston: published by the author, 1871], p. 43.) The stocks of Boston banks appear, therefore, to have maintained their values far better than did those of the Baltimore banks.

<sup>32</sup> In acquiring such assets the Baltimore Bank had adopted a policy that was at variance with the investment policy of most conservative savings banks. The behavior of state governments during the crisis of 1840-1842 had caused general concern over the safety of their bond issues. In Philadelphia, for example, the Savings Fund Society did not invest in non-Pennsylvanian issues until 1870. Willcox, *Philadelphia*, p. 167.

### (3) *Private Loans*

Marked differences in private loan policies — both in respect of the type of loans made and the terms on which they were granted — make any comparison of the aggregate volume of the private loans made by the two institutions misleading. The Savings Bank of Baltimore loaned both on long-term (more than one year) and short-term (less than a year); but the Provident made almost no loans for periods of less than one year.<sup>33</sup> In Baltimore the only acceptable collateral was formal securities (e.g., commercial bank stock, public funds, etc.) and mortgages on real estate. In Boston, however, loans were also made to commercial banks on no security, to business firms on the signatures of the officers and two guarantors, and, for a short time, to mercantile and manufacturing concerns on commercial paper. Rational banking policy dictated diversification in both banks' portfolios. The officers of the Savings Bank achieved this by shifting from loans to other investments; the Provident's managers by shifts within the broad area of private loans.

Chronologically, both banks granted loans on formal security several years before they accepted any other kind of collateral, and until in the late 1830's both portfolios display similar trends in this asset component. As security values fell in the Panic of 1837 and in the subsequent depression of 1840-1842, both banks reduced their security loans. The Savings Bank of Baltimore (lending only on short-term) reversed its policy when securities again rose in value, but the Provident's management, influenced by the losses experienced in the foregoing period, decided that formal securities were unsuitable collateral for long-term loans. Subsequently, the Provident granted very few long-term loans on the hypothecation of formal securities. Indeed, such loans never again exceeded 2 per cent of the bank's total assets.

Throughout the period, the two banks' holdings of mortgage loans display quite different trends. In Baltimore, loans on real estate were first made as early as 1828, but after an initial rise to about 40 per cent of total assets, they declined slowly through the remainder of the period, reaching 25 per cent in 1858. In Boston, on the other hand, although the bank's managers did not enter the real estate market until 1838, thereafter the proportion of real estate loans slowly rose to reach about 35 per cent of the Provident's total assets in 1858.

<sup>33</sup> The exceptions to this were confined to loans to commercial banks and a short-lived discount business.

In Baltimore, the downward trend in mortgages was one manifestation of the more sophisticated investment policy that followed the shift to professional management. Sound portfolio policy required diversification, and this in time meant a reduction in private loans, as no less than 90 per cent of the Bank's assets were in this category in the early 'thirties. The falling security prices and rising real estate values during the 'thirties and early 'forties resulted in the reduction taking place in security loans, but when the prosperity of the mid-'forties reversed the trend in security prices and increased the demand for short-term mercantile credit, the managers began slowly to reduce the volume of mortgage loans, and to build up security loans again.

The Provident's delay in granting mortgage loans may probably be explained by the relative unattractiveness of this type of investment. During the late 'twenties and early 'thirties, it would appear (if one may generalize from the experience of the Massachusetts Hospital Life Insurance Company) that the returns on Boston real estate loans were somewhat below the 6 per cent that was currently being earned by security loans and other investments.<sup>34</sup> Similarly, the yield on alternative investments provides an explanation for the upward trend in the proportion of mortgage loans after 1840. Real estate values were not too adversely affected by the depression of 1840-1842, and, after 1840, real estate loans were yielding close to 6 per cent.<sup>35</sup> At the same time, loans on formal securities looked much less profitable; and rational investment policy dictated that further investment in commercial bank stocks be postponed until the damage inflicted by the panic and subsequent recession had been fully evaluated. It is not surprising, therefore, that during the

<sup>34</sup> For the ten years 1828 through 1837 Boston commercial bank stock yielded on the average 5.7 per cent. Martin, *Boston Stock Market*, pp. 45-56. Although the Massachusetts Hospital Life invested heavily in real estate mortgages throughout the '20's and '30's, it is significant that until the late '30's almost all of these investments were in mortgages on farms in Western Massachusetts yielding 6 per cent (the legal maximum). If 6 per cent mortgages had been available in Boston it appears likely that the Massachusetts directors would have preferred the closer investments.

<sup>35</sup> Although Huse's figures on Boston real estate prices are not strictly comparable between years, they do indicate that Boston real estate values were not seriously depressed by the depression of 1840-1842.

Year	Price per foot
1837	\$0.30
1838	.26
1839	.49
1840	.35
1841	1.35
1842	.61
1843	1.08
1844	.49

Charles Philip Huse, *The Financial History of Boston* (Cambridge, 1916), p. 380.

1840's a shift took place from loans on formal securities and bank shares to mortgage loans.

Among the Provident's loans were some that were made on the hypothecation of collateral that was unacceptable in Baltimore, and among these the most important were loans on personal security. Although few of these personal security loans were contracted before 1840, by the 1850's they constituted about one quarter of the Provident's assets. These loans were usually made to the large "Massachusetts Type" textile mills, but occasionally the larger mercantile partnerships were permitted to borrow in this manner. In all cases, however, the loans were made without the pledge of formal collateral. Instead the bank required only the signatures of the borrowing firm's chief officer and two "guarantors." Thus the borrowing firms were able to acquire long-term finance without tying up their real assets; and, as the borrowing firms were always financially sound and the guarantors were drawn from among the city's most prosperous businessmen, the bank considered that there was little risk attached to these loans.<sup>36</sup>

That the Savings Bank of Baltimore did not invest in personal loans is not surprising. Outside of Massachusetts such loans were considered extremely risky investments. The Philadelphia Savings Fund Society made no personal security loans; in New York they were specifically prohibited; and not even the European savings banks sanctioned them.<sup>37</sup> Given the general bias against such loans, their acceptability in Massachusetts is, at first glance, rather surprising. Closer examination, however, indicates that acceptability is associated with that state's textile industry. This industry continually demanded long-term credit; its liability to asset ratio was very low; and a large proportion of its stock was owned by highly respectable Boston merchants. Massachusetts banks could, therefore, afford to make special concessions to the textile industry, concessions which banks in other states could make only with great risk.

The Provident entered the short-term commercial bank loan market because the directors thought such loans profitable (short-term money returned from  $3\frac{1}{2}$  to 5 per cent), safe, and instrumental in providing an additional tie between the savings bank and the commercial banking system. The events of the years 1837-1842 did much to convince the Provident's managers that these reasons were

<sup>36</sup> Only once was a borrowing firm (the Bay State Mills) unable to repay a loan, and, even in this case, the Provident was able to avoid having to call on the guarantors by waiting for reorganization to be carried out.

<sup>37</sup> Keyes, *Savings Banks*, Vol. I, pp. 78-83; Willcox, *Philadelphia*, *passim*.

no longer sufficiently strong to warrant continued investment in this market, while the Provident's actions during that period convinced the commercial bankers that it was not always safe to borrow on the savings bank's terms. By the late 1830's the Provident was large enough, and its portfolio was well enough diversified, no longer to require support from the commercial banks in time of economic crisis; the panic and subsequent depression had severely strained the commercial banks and forced a reappraisal of the safety of the commercial banking system; and the entry of textile firms into the loan market had provided a new high-yield investment alternative. Conversely, the Provident's refusal to extend the duration of outstanding loans during the crisis convinced the commercial bankers that as long as they depended on short-term credit they always stood liable to redeem their pledges during the periods when they could least afford to lose reserves. Consequently, after 1842, the only new loans that were extended to the banking system were long-term loans at rates comparable to those paid by other borrowers (i.e., about 6 per cent).

For a few years in the late 'forties and early 'fifties the Provident engaged in an active discount business, and by 1851 these discounts represented more than one-quarter of the bank's assets. The Provident's entry into the discount market brought complaints from the commercial banks, and the Bank Commissioners opined that discounting was not a legitimate function of savings banks. Although the Provident defended its discount business, an adverse court decision and continual pressure from the Commissioners forced the mutual to withdraw from this field by 1854. The refusal of the Savings Bank's officers to engage in discounting was probably due to a feeling that such activity was improper for savings banks; a feeling shared by the large savings banks in New York and Pennsylvania as well as by the Massachusetts Bank Commissioners.

#### *(4) Semi-Industrial Securities*

Although both banks had small holdings of a wide variety of miscellaneous assets, neither invested heavily in industrial, railroad, or public utility stock.<sup>38</sup> In the case of the Provident, legal restrictions long prohibited such investment; but even after such restrictions were removed the bank — with only one exception — never directly invested in these semi-industrial securities, for the Provi-

<sup>38</sup> At one time the Provident even purchased an annuity with the Massachusetts Hospital Life Insurance Company.



dent's manager found it safer and more profitable to make loans to railroad and public utility companies than to purchase their equities.<sup>39</sup> The experience of the Savings Bank suggests that the Provident had adopted a wise policy. The Baltimore bank's relatively small holdings of Baltimore and Ohio, New York Central, Baltimore Gas Light Company, and Baltimore Water Company stock yielded no more than alternative investments and since they were subject to wide fluctuations in value they were much less safe. In fact, the only loss suffered by the bank during the entire period was in its holding of stock of the Baltimore Water Company.

#### PORTFOLIO POLICY

To conclude, an over-all survey of the portfolios of the two banks reveals the influence of provincialism and legal regulation; furthermore, both portfolios reflect different investment opportunities and, to some extent, the composition of the boards of directors.

The investment policy of both banks was marked by a considerable degree of provincialism. It is almost as if the managers refused to invest in any asset that they could not touch. The bank shares that they held were the shares of local banks; their loans were almost entirely loans to local residents; and, until the mid-'fifties, the state and local bonds that they held were limited to the issues of their own states.<sup>40</sup> Because of their provincialism the banks failed to take advantage of a great range of investment opportunities. For example, during the 'twenties the Provident was making the bulk of its loans at a rate of interest well below the 6 per cent received by the Savings Bank. The provincialism in investment policy strongly suggests that in this early period long-term capital was relatively immobile, and that the geographic concentration of industry may well have been one manifestation of this immobility.

Because of legal restrictions neither bank could charge more than 6 per cent on its loans, and their reluctance to aid new business may, in part, be a product of this interest limit. Indeed, many of the

<sup>39</sup> Railroad companies that received loans from the Provident were the Boston and Lowell, the Boston and Worcester, the Old Colony, the Webster, and the Western. Of the five, the Western received by far the most. Its outstanding loans between 1840 and 1860 were never less than \$250,000 and at one time reached \$700,000.

<sup>40</sup> The Savings Bank of Baltimore loaned only to residents of Baltimore City until the mid-'fifties when the area was extended to include Baltimore County. The Provident restricted its real estate loans to Boston property; its formal security and bank loans to residents of the Boston metropolitan area; and its personal security loans (with only a few exceptions) to Massachusetts firms. Even in the case of the exceptions (to New Hampshire firms) the loans were made through officers of the firms who were Massachusetts residents. Even after the mid-'fifties the Provident did not hold non-New England funds.

differences between the two portfolios can be traced to differences in banking regulations. In Baltimore the Savings Bank was free from regulation but the Provident's managers were (after 1834) prohibited from making some types of investments. They were permitted neither to loan directly to railroads nor to invest in their securities until the early 'forties, and, even after that date, they were prohibited from investing in non-Massachusetts roads. They could not legally acquire stock in a manufacturing concern until the mid-'fifties and at no time were they allowed to acquire the public funds of non-New England bodies.

Within this legal framework, the investment alternatives that faced the two banks were very similar. There was, however, one important exception. In Massachusetts the cotton textile industry was willing to borrow large sums at the maximum legal interest rate. This demand strongly influenced the composition of the Provident's portfolio, and it was an important factor in the Provident's ability to maintain earnings at nearly as high a level as the Savings Bank of Baltimore, despite the more rigorous legal restrictions under which it operated. Yet the fact that the Provident provided much more industrial capital than the Baltimore Savings Bank cannot be completely explained by the demands of the textile industry. In part it was also a reflection of the differences in the make-up of the boards of directors. Although merchants dominated both boards, the Boston merchants had been associated with industry since the early 1820's while the Baltimore merchants remained primarily devoted to mercantile pursuits throughout the period. It is reasonable to assume, therefore, that the Boston directors, since they were more familiar with industry, looked with more sympathy on requests for loans from industrial concerns.

#### CONCLUSIONS

If the Savings Bank of Baltimore and the Provident Institution for Savings in the Town of Boston were typical of the early mutuals (and the evidence suggests that they were), it appears that savings banks made an important contribution to early American capital accumulation and mobilization.

The semi-benevolent philosophy that gave rise to the mutuals did much to remove the small savers' fear of banks and bankers, and, by providing a safe and profitable depository for savings, the mutuals probably increased the propensity to save among the work-

ing classes. Moreover, the mutuals certainly made small savings available for productive investment, especially after the founders had given way to a business-oriented management in the conduct of the operations of the banks.<sup>41</sup> Although it appears that almost all of the banks' direct investment in industry and trade took the form of private loans, their willingness to absorb public issues must also have freed funds for investment in manufacturing concerns.

<sup>41</sup> For a detailed study of the role of the Savings Bank of Baltimore in providing capital for the early industrial development of this city, see Payne and Davis, *op. cit.*, pp. 114-137.

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## Mormon Philosophy and Practical Railroad Building

*"Mormon religious and economic self-sufficiency thrived best on isolation, yet Brigham Young hailed the coming of the railroad. This practical and very successful adaptation to new circumstances was inspired by a religious goal. Increased profits and growing trade would accelerate the progress of the work of the Lord. Zion flourished, even as Young had foreseen, but the old social and economic institutions were undermined and Mormon dominance in the territory was challenged."*

Although some historians have considered the Mormon attitude toward the Union Pacific Railroad and other lines in Utah Territory, they have generally failed to give attention to the effects that the railroad construction had on Mormon beliefs and customs.<sup>1</sup> This article will discuss the Mormon attitudes toward the trans-continental railroad (within the framework of Brigham Young's social and economic policies); it will survey briefly the kinds of aids granted and the types of construction which were completed by members of the Church of Jesus Christ of Latter-day Saints; and it will analyze the effects which the railroad had on Mormon philosophy.

### MORMON SOCIAL AND ECONOMIC POLICIES

Mormon economic policies under Joseph Smith, founder of the church, were based on the law of consecration.<sup>2</sup> This law demanded

<sup>1</sup> A majority of the books dealing with general economic aspects of western history make little or no mention of this subject. Among them may be mentioned: Ray A. Billington, *Westward Expansion* (New York, 1949); Katherine Coman, *Economic Beginnings of the Far West* (2 Vols.; New York, 1925); Leroy R. Hafen and Carl C. Rister, *Western America* (New York, 1941); and Glenn C. Quiett, *They Built the West* (New York, 1934). Volumes which specifically treat transportation problems in the West also leave much to be said about the Mormons. The following are in this category: James B. Hedges, *Henry Villard and the Railways of the Northwest* (New Haven, 1930); Frederick L. Paxon, "The Pacific Railroads and the Disappearance of the Frontier," American Historical Association, *Annual Report*, 1907, Vol. I, pp. 107-118. Two well-known volumes need to be mentioned here: Robert E. Riegel in *The Story of Western Railroads* (New York, 1926) summarizes the Mormon attitude toward the railroad (pages 110-111) and Nelson Trotman in *History of the Union Pacific* (New York, 1923) gives accurate information on the construction of Mormon railroad lines (pages 177-179), but neither of these treats this railroad building in terms of Mormon philosophy.

<sup>2</sup> *Doctrine and Covenants*, 42:30, 51:1.

that members who acquired surplus property were to consecrate it for the benefit of the poorer members of the society. The organization of the community was to be cooperatively based, although Mormons will be quick to point out that this did not mean a form of communism, since the cooperation would exist concurrently with individual initiative.<sup>3</sup> Brigham Young, on becoming second president of the Mormon Church in 1847, pursued an economic course that was oriented towards maximizing the welfare of the church members in this life and in the next. He was actually in search of a "Heaven on Earth."<sup>4</sup> Using *The Bible* as a base, and superimposing upon it *The Book of Mormon, Doctrine and Covenants*, and the *Pearl of Great Price*, Young fashioned a practical religion which was suitable for the Deseret environment.<sup>5</sup> This explains the pragmatic nature of much of Young's writings. He had little time to expend on Supernatural affairs. Instead his sermons were concerned with such things as how to plant, how to irrigate, and how to raise cattle.<sup>6</sup> Under this organization, land was surveyed and parcelled out to members, canals were constructed, and Great Salt Lake City was developed.<sup>7</sup>

Young was determined to make the Latter-day Saints independent of Eastern financiers, therefore he launched the Mormons on an economic program that was designed to increase productivity. This was implemented by cooperative endeavors in farming, leather, tanning, sawmilling, quarrying, and construction. As he said, "The [true] financier is he that brings the lumber from the canyons and shapes it for use of his fellowman, employing mechanics and laborers to produce from the elements . . . one who builds tanneries to work up the hides instead of letting them rot. . . ."<sup>8</sup> Even with the coming of the gentiles and later the railroad, Young clung to this fundamental philosophy of independence.<sup>9</sup> Note how similar the above statement is to one made just a few years before his death. At that time he said:<sup>10</sup>

<sup>3</sup> The interpretations of the Mormon religion which are presented in this article have been checked and mostly approved by the director of the Latter-day Saints Institute of Religion at Idaho State College. It should be added, of course, that this is not a criticism of Mormon beliefs, but rather an attempt to evolve an economic policy from the sermons and writings of the church founders and leaders.

<sup>4</sup> See William J. McNiff, *Heaven on Earth* (Oxford, Ohio, 1940).

<sup>5</sup> The name of Deseret, taken from the *Book of Mormon*, means honeybee and indicates the emphasis of the Mormon Church on industry and thrift.

<sup>6</sup> Young's sermons are recorded in the *Journal of Discourses*, which covers his addresses between December 16, 1851, and August 19, 1877.

<sup>7</sup> The present name of Salt Lake City was not adopted until 1868.

<sup>8</sup> *Journal of Discourses*, 19:97. See also Hamilton Gardner, "Cooperation Among the Mormons," *Quarterly Journal of Economics*, Vol. XXXI (May, 1917), pp. 461-499.

<sup>9</sup> According to the Mormons, a gentile is any non-member.

<sup>10</sup> Speech in the Ogden tabernacle, quoted in Preston Nibley, *Brigham Young* (Salt Lake

It is the duty of the Latter-day Saints to accumulate all they can, so as to be better able to build up the Kingdom of Zion, and be independent people, independent of every creature beneath the Celestial world. We should make our own articles of clothing. . . . in the early days . . . we were destitute of tanneries to make leather, factories to make cloth. . . . Now, however, we are in a position to manufacture many needed articles here, and there is no longer a necessity for us to send our means to procure them. . . .

Isolation was fundamental to the development of this new idea. The major reason for selecting the valley overlooking the Great Salt Lake as the location for the colony was that the land was at that time a part of Mexican Territory.<sup>11</sup> The Great Prophet hoped for a long period of isolation in which to nourish his Theocratic empire. For this reason mining was the only industry prohibited by the church leaders. Following the discovery of gold in California, they were fearful that a similar discovery in Utah would bring in a flood of non-members to the Territory. But this prohibition did not prevent the Mormons from making quick profits from travelers on the overland route to California.<sup>12</sup> The flood of miners to the western mines created the State of California and made inevitable the construction of a transcontinental railroad.

#### ATTITUDES TOWARD THE RAILROAD

The coming of the railroad presented a multiplicity of problems for the Saints because it stood to transform the "political and economic ideologies." The two most serious problems facing the Mormons were: (1) cheaper goods from the East which would result in a loss of sales and the probable bankruptcy of many local businesses — for example, there would be increased imports of Kansas wheat and manufactured goods from St. Louis; (2) the railroad would undoubtedly stimulate the mining industry, not only because it would provide cheap transportation for the ores, but also because it would bring in potential miners. Young had taught his church members to believe that mine profits were temporary, and that you could not build the Kingdom of the Lord on earth with such transitory wealth. For the Prophet, the advancement

City, 1936). This volume is a series of articles originally printed in the *Deseret News* from 1934-1936.

<sup>11</sup> Salt Lake City is not the permanent location of the Mormons because they still believe that Zion will eventually be established in Jackson County, Missouri.

<sup>12</sup> See Coman, *op. cit.*, Vol. II, p. 179, and Hubert H. Bancroft, *History of Utah* (San Francisco, 1890).

of Zion was essentially a very long-run proposition.<sup>13</sup> Improved transportation would cause a social revolution and would break down the theocratic control of society.<sup>14</sup> Professor Arrington believes that because the social revolution would have substituted "free" enterprise and trade with the East, change was slower in Utah.<sup>15</sup> It should be stressed that while the cooperative nature of Mormon society did impede the revolution, the church leaders, and especially Brigham Young, were always ready to adopt new economic policies to suit a changing environment. It will be shown in the next section that the Mormons readily accepted the railroad, and that they adjusted to the new business atmosphere by building new plants to take advantage of the lower transportation rates for manufactured goods and for primary products. Moreover, as Arrington states elsewhere, the Board of Trade was created to utilize the new transportation medium.<sup>16</sup>

There was much agitation for the Mormons to ally themselves with the new forces of Big Business.<sup>17</sup> The Godbe heresy was one of the results of this agitation. William S. Godbe opposed the church-type cooperatives and suggested that the Mormons be allowed to fraternize with the gentiles, since there was a need for greater cooperation between these two groups. Moreover, he questioned the church authority to speak for all the members. As Thomas H. B. Stenhouse, who broke from the church at this time, later stated: "Mormonism demands perfect submission . . . blind obedience. There is no middle way."<sup>18</sup> Because of his beliefs, Godbe was expelled from the Mormon Church, therefore he and Elias T. Harrison, another apostate, joined with Colonel Conner to form the Liberal Party which, aided by the *Salt Lake Tribune*, became very anti-Mormon. Professor Arrington points out, however, that Young could not have been an absolute dictator since Godbe's expulsion came at a forum meeting of the School of the Prophets — a group of Mormon townspeople who organized in 1867 to take action on the Godbeite heresy.<sup>19</sup>

In spite of the expulsion of Godbe, the literature seems to indicate

<sup>13</sup> See Richard T. Ely, "Economic Aspects of Mormonism," *Harpers Monthly Magazine*, Vol. CVI (April, 1903), pp. 667-678.

<sup>14</sup> See Nels Anderson, *Desert Saints: The Mormon Frontier in Utah* (Chicago, 1942).

<sup>15</sup> Leonard J. Arrington, "The Transcontinental Railroad and Mormon Economic Policy," *Pacific Historical Review*, Vol. XX (May, 1951), p. 144.

<sup>16</sup> Leonard J. Arrington, "Zion's Board of Trade: A Third United Order," *Western Humanities Review*, Vol. V (Winter, 1950), p. 3.

<sup>17</sup> See Morris R. Werner, *Brigham Young* (New York, 1925).

<sup>18</sup> *Rocky Mountain Saints* (New York, 1873), p. 11.

<sup>19</sup> Arrington, "The Transcontinental Railroad . . .," *op. cit.*, p. 148.



that Young always desired that a national railroad be constructed through Utah Territory. As early as 1849, he realized that a powerful church could be developed with an increased capitalistic organization. As governor of the first territorial legislature meeting at Salt Lake City, he succeeded in passing a memorial to Congress on March 3, 1853, asking for a national central railroad and a telegraph line from the Mississippi River via Salt Lake City to the Pacific Ocean. In this memorial, it was stressed that:<sup>20</sup>

. . . We know that no obstruction exists between this point and San Diego, that iron, coal, timber, stone and other materials exist in various places on the route; and that the settlements of this territory are so situated as to amply supply the builders of said road with material and provisions for a considerable portion of the route. . . .

Your memorialists are of the opinion that the mineral resources of California and these mountains can never be fully developed to the benefit of the United States without the construction of such a road; and upon its completion, the entire trade of China and the East Indies will pass through the heart of the Union.

Another memorial of similar character was sent to Congress two years later; it is difficult to reconcile the memorials with the opinion that Young did not favor the coming railroad. Brigham Young's own words solidify this thesis; in a letter to his son, John W. Young, dated February 5, 1867, he wrote:<sup>21</sup>

It will be sure to help us, and be advantageous to the Zion of our Lord, though the wicked are contemplating terrible things respecting us as soon as they can finish the railroad. . . . Improvements will progress; railroads and telegraph lines and cables will be built and stretched; but instead of these things acting as a check to the growth of the Kingdom of God, and as an aid to our enemies, they will increase our facilities, and accelerate the progress of the work of the Lord.

Whatever divergences of opinion there were in the Saints' ranks concerning the benefits of the iron horse, Young's contract to construct the 90 miles from Echo Canyon to Ogden was a satisfactory compromise. This plan would exclude the unwanted gentiles from Salt Lake City and it would also generate a sizable income for the church on that portion of the railroad. In this way the Mormons could use their own labor, retain the cooperative elements of their society, and import very needed capital for the service provided.<sup>22</sup> The *Omaha Herald*, in seconding the project, praised the long-

<sup>20</sup> Edward W. Tullidge, *Tullidge Histories of Utah* (Salt Lake City, 1889), Vol. II, p. 532. Tullidge incorrectly states the date of this memorial as 1852.

<sup>21</sup> Nibley, *op. cit.*, p. 418.

<sup>22</sup> Arrington, *loc. cit.*, p. 149.

standing nature of Young's cooperation with the Union Pacific Railway when it editorialized: <sup>23</sup>

The Union Pacific Company are fortunate . . . in having secured the powerful aid of Brigham Young in the prosecution of their great work. It is due to him to acknowledge that, from the incipency of the enterprise, it has had his constant cooperation and assistance, down to the present hour; and that he steps in with so large a control of labor to strengthen the hands of the company in pushing the Union Pacific to speedy completion.

Not only did the Prophet eagerly await the successful junction of the Union and the Central Pacific railways, but he was confident that the Mormon Church would survive and even flourish in the presence of the railroad. Perhaps Young even gleamed when he stated in 1869 that the Mormon religion was weak indeed if it "cannot stand one railroad." <sup>24</sup>

#### MORMON RAILROAD CONSTRUCTION

The railroad ventures of the Latter-day Saints fall under two headings: assistance offered to the Union Pacific Railway and the construction of church-owned roads. In the former area, the earliest kind of aid granted was assistance in surveying the proposed route. When Young petitioned the U. S. Congress for a railroad in 1853, he was interested in putting an end to the great loss of life which emigrants were experiencing in crossing the Great American Desert. Mann estimated that 20,000 Mormons left their bones along the Mormon Trail.<sup>25</sup> Young was also highly concerned about the grasshopper plagues which were causing undue suffering among the Mormon Brethren. He was so anxious to receive the railroad that he paid the total cost of the first two-year survey conducted by S. B. Reed in 1865 and he furnished all the supplies for the party without charge.<sup>26</sup> As soon as the Union Pacific Railway approached Salt Lake City, Young became its chief contractor. With Bishop John Sharp as his aide, he accepted a contract to grade the 90 miles of roadbed between Echo Canyon and Ogden. For this assistance, the Mormons were to receive \$2,125,000; it has been estimated that

<sup>23</sup> May 24, 1868. (Italics mine.)

<sup>24</sup> Statement to Grenville Dodge, cited in U. S. Senate, *Doc. No. 447*, 61st Cong., 2d Sess. (1909), p. 136.

<sup>25</sup> David H. Mann, "Brigham Young's Road," *Railroad Magazine*, Vol. XXXVII (Feb., 1945), p. 11. Although Mann's article was written for a popular audience and is not documented, it is an accurate and interesting account of the building of the Utah Central Railroad.

<sup>26</sup> Tullidge, *op. cit.*, p. 533.

Young personally earned \$800,000 on this job. Three of the Prophet's many sons assisted him in this venture: Joseph, Heber, and David. Joseph had been a member of the Peter A. Dey party which made the Union Pacific survey in 1863.

The contract called for the Mormons to do the heavy stone work of the bridge abutments and the cutting of tunnels in Weber Canyon. There is no doubt that the Mormons did this work very well. As Brother Brigham boasted in 1869:<sup>27</sup>

Our work on the lower tunnel was completed last Saturday first. The big tunnel which the company's men took off our hands to complete in a hurry, has been proferred back again. They have had less than four men to our one constantly employed, and, withal, have not been doing over two-thirds as much work.

Young generally cooperated with the railroad with but one exception. It was originally intended that the Union Pacific should go directly to Salt Lake City via the south end of the Great Salt Lake. Grenville Dodge, chief engineer for the Union Pacific, found, however, that the north end of the lake was far superior, therefore he offered to build a branch line to the capital city. Young became incensed and appealed over the head of Dodge to the board of directors who referred the question to officials of the federal government. When the government decided in favor of Dodge, Young shifted his allegiance to the Central Pacific Railway, hoping to get them to swing the line around the south end of the lake and to force the Union Pacific to make a connection there. A survey was made by the Central engineers who also adopted the north end, consequently Young returned to his first love, the Union Pacific. But he did not cease his efforts to change the route. He even delivered a sermon in the Tabernacle claiming that, "a road could not be built or run without the aid of the Mormons."<sup>28</sup>

It was stated that Brigham Young was very pleased to obtain the contract to complete the 90 miles of track because times were bad and because unemployment prevailed. But more important, this project enabled the church to import new Zionists to Utah at a faster rate. The Mormons always believed in a strong immigration policy. In 1849, the Perpetual Immigration Fund was established to assist members in obtaining transportation from Europe to Salt Lake City. Each immigrant agreed in writing to become indebted

<sup>27</sup> Letter to Albert Carrington, Liverpool, Feb. 4, 1869, quoted in Nibley, *op. cit.*, p. 445.

<sup>28</sup> Grenville M. Dodge, *How We Built the Union Pacific Railway* (Washington: Government Printing Office, 1910).

to the Fund for passage money. Members worked on roads, meetinghouses, and railroads until the obligation to the Fund was cancelled.<sup>29</sup> The Mormon agent for the Fund was stationed in England; it was his job to accept applications from prospective members until a sufficient number was obtained to charter a boat. Although the high point of immigration was reached by 1855, the Fund existed until 1887 during which time over \$10,000,000 was expended to aid new members.<sup>30</sup>

The Union Pacific contract was instrumental in accelerating the pace of immigration. Young needed hundreds of men to assist in the grading and laying of ties. He wrote to Apostle Richards to make arrangements with the steamship lines to transport a load of immigrants for the job. He then added:<sup>31</sup>

All men physically able to work on the road will be passed free from Omaha to the terminous . . . where they can be distributed on the work required. . . . this contract affords the opportunity of turning that labor in money . . . and import needed machinery . . . and those coming can pay their indebtedness.

When the contract was fulfilled, Young requested cash payment for the work, but he soon learned that the Union Pacific was in financial trouble. Many church members forgot their reverence for their Prophet as they stormed the leader demanding cash for their labors. Several non-members also brought suit against the railway company. For a long time, Young had been considering the construction of a branch line from Ogden to Salt Lake City; therefore he notified the Union Pacific that if they would advance him \$600,000 worth of locomotives, rails, and other railroad equipment and supplies, he would be willing to wait for the balance. The Union Pacific readily agreed, but it was not until February 7, 1870, that the company made the first delivery of locomotives according to the agreement.<sup>32</sup>

The Mormon contribution to the building of the Union Pacific was very significant because it came at a time when the company was having trouble in finding contractors to complete the line. The difficulty was a long-standing one. Six different contractors were required to build the first 305 miles of the railroad and at that time, there was much doubt that the road would be completed. It took

<sup>29</sup> Coman, *op. cit.*, p. 377. See also Bancroft, *op. cit.*, p. 415.

<sup>30</sup> There seems to be no accurate estimate of how many Mormons came to America with the aid of the Fund. Bancroft said that between 1837 and 1851, 16,000 arrived. Tullidge claimed that the figure was 14,364 for the years 1851-1856. It is fairly certain that the high figure was obtained during Franklin D. Richards' administration which began in 1850.

<sup>31</sup> Letter to Franklin D. Richards, May 23, 1866, in Nibley, *op. cit.*, p. 434.

<sup>32</sup> Mann, *op. cit.*, p. 21.

months to obtain the initial capital, a considerable portion of the able-bodied men were in the Army, prices and materials were high, the Indians were a continual nuisance, and the eastern terminus (Omaha) was miles from any of the important connecting lines in the East. Until Oakes Ames personally assumed the financial risks for the next 667 miles, it was almost impossible to obtain additional capital. Persons preferred to invest in home industries rather than toss their money into a venture on the plains and in the mountains. The land grants helped, but as Cochran showed, the grants would not guarantee investment in a railroad, and many railroad managers stayed with roads only because they could make a profit working with land companies.<sup>33</sup> Not until the Union Pacific purchased the Credit Mobilier with its limited liability was the problem of raising capital finally solved. The Credit Mobilier was originally chartered as the Pennsylvania Fiscal Company in 1859 to build railroads in Pennsylvania. Durant purchased the company in 1864 and changed its name. Up to the time of this purchase, few men could be induced to construct the railroad because they would be liable for the full amount of their property. Since the Credit Mobilier was granted the rights of limited liability, it was easier to obtain funds and the necessary capital was quickly subscribed. When Ames bowed out of the Union Pacific in 1868, there was no difficulty in getting capital to take up his contract.<sup>34</sup>

But solving the financial problem did not solve the problem of letting contracts. As White said,<sup>35</sup>

... it was impossible to let contracts to outsiders for even the easy portions of the road. John Duff, who had done a great deal of work of this, made repeated efforts to let contracts among experienced and competent contractors, appealing to his own subcontractors in his attempts to find some one who would do the work, but he was unable to get any one to go out there.

In these terms, the Mormons were important. They were eager to add to their monetary wealth and they were very conscientious workers. The speed of their work was crucial because the public was demanding that the road be completed in all haste and because the 1866 law placed the juncture of the Union Pacific with the Central Pacific at wherever the roads happened to meet. This ruling set up a great rush of construction to capture the rich Salt

<sup>33</sup> Thomas C. Cochran, "Land Grants and Railroad Entrepreneurship," *Journal of Economic History*, Vol. X, Supplement (1950), pp. 53-67.

<sup>34</sup> Henry K. White, "Building and Cost of the Union Pacific," in William Z. Ripley, *Railway Problems* (Boston, 1907), p. 92.

<sup>35</sup> *Ibid.*, p. 90.

Lake City market. Part of the Mormons' speed of building can be attributed to their peaceful relations with the Indians. In the eastern sections of the line, Indian uprisings necessitated that half the men stand guard. Hundreds of men were killed by these raids and this added much to the costs of building. The Mormons, like the Hudson's Bay Company, learned that kindness toward the Indians was a good investment. While Young and his brethren did not exactly welcome the red men, they were always amiable towards them and often gave them food and supplies without charge.

Another factor in the Mormon contribution to the building of the Union Pacific Railway was the low price which they accepted for the work done. The Mormons agreed to complete 90 miles for \$2,125,000 or an average of \$23,611 per mile. At this same time, a mile of road in Illinois cost \$33,000, in Iowa, \$35,000, and in the level part of California, \$34,000. Moreover, the Ames contract which covered the previous 667 miles called for the following payments: 100 miles, \$42,000; 167 miles, \$45,000; 100 miles, \$96,000; 100 miles, \$80,000; 100 miles, \$90,000; and the last 100 miles, \$96,000. Also, the Mormon contract came in a territory for which the railroad was receiving the maximum \$48,000 per mile.<sup>36</sup>

In addition to the aforementioned aids, the Mormons also financed, built and managed several shorter railroads that traversed the territory in all directions from Salt Lake City and Ogden. When it was certain that the Union Pacific would go around the capital city, Young began making plans for the construction of a branch line from there to Ogden, the closest point on the Union Pacific line. Thus, the Utah Central Railroad was chartered. Although the road was financed from the money earned on the grading contract in Weber Canyon, it was the West's first cooperatively constructed railroad. The revenue derived from the temporary settlement of the Union Pacific account was used to buy iron and rolling stock. Many of the ties used were cut in the mountains west of the Great Salt Lake and hauled in by ox team. This was another splendid example of Mormon industry: men willingly gave up farm chores to set ties, and women left their households to prepare and serve food as the ties went past their properties. The 37 miles were completed

<sup>36</sup> The original Union Pacific Act of 1862 (U. S., *Statutes at Large*, Vol. XII, p. 389) offered 10 sections of public lands and the loan of \$16,000 of U. S. Bonds per mile, but the Act of 1864 amended this to allow twice the amount in the foothills and treble it in the rough mountains. For treatments of the financial problems of the Union Pacific Railway, see Paxon, *op. cit.*; Dodge, *op. cit.*; Trottnan, *op. cit.*; and Henry K. White, *History of the Union Pacific Railway* (Chicago, 1895).

by January 10, 1870, when the first train arrived from Ogden.<sup>37</sup> Although it was a comparatively short line, the Utah Central did a considerable business. In 1872 it grossed \$420,000, with half of this figure emerging as net profit!<sup>38</sup>

As a result of the success of the Central, branches were also planned to connect the interior to Ogden and Salt Lake City. Continuing his "Empire-Building," Brigham Young in 1871 promoted the Utah Southern Railroad Company—a line to run the entire length of the territory. Work was begun on May 1, 1871, and the *Deseret News* showed the enthusiasm for the work when it said: "Contractors and operatives were ready to commence work immediately. Four miles of the road were already contracted for."<sup>39</sup> In the next year, when the tracks had reached to Lehi, construction was suspended because of a shortage of iron.<sup>40</sup> By 1880, the tracks were as far south as Milford and in the next decade they were extended to the southwestern border of the state.<sup>41</sup>

The most impressive episode in Mormon railroad history was the building of the Utah Northern Railroad from Brigham City to the mines of Northern Montana. This road became economically feasible when the volume of traffic moving over the Montana trail showed tremendous increases due to gold and silver discoveries in Idaho and Montana in the 1860's.<sup>42</sup> The Mormons did not wish to be excluded from the rich trade, which was made up mainly of agricultural commodities and mine supplies—items which the Saints were quite anxious to export. The men most responsible for the promotion and construction were, in addition to Brigham Young, John W. Young, Brigham's son, and Bishop William B. Preston. Brigham negotiated for an Eastern loan from two New York contractors, after which Bishop Preston called a meeting of the Mormon citizenry to determine the assignment of tasks. It was agreed that the members would build embankments, make cuts and supply and lay ties. Construction began on March 25, 1872, at Brigham City, so chosen because it was close to the Central and Union

<sup>37</sup> Mann, *op. cit.*, p. 21; Nibley, *op. cit.*, p. 451.

<sup>38</sup> Bishop John Sharp, who was vice president of the Utah Central Railroad, gave some detailed testimony on the construction and financing of that line to the Pacific Railway Commission. See U. S. Senate, *Doc. No. 51*, 50th Cong., 1st Sess. (1887), pp. 2,154 ff.

<sup>39</sup> May 3, 1871.

<sup>40</sup> Letter from Brigham Young to Albert Carrington, Dec. 11, 1872, in Nibley, *op. cit.*, p. 487.

<sup>41</sup> The Utah Southern and the Utah Southern Extension roads were sold in 1900 to the San Pedro, Los Angeles, and Salt Lake City Railroad. This line was incorporated as a part of the Union Pacific Railway in 1921. See *Utah: A Guide to the State* (New York, 1941).

<sup>42</sup> See the writer's doctoral dissertation, "An Economic History of Idaho Territory, 1863-1890" (Saint Louis University, 1957).



Pacific railroads and because it offered a means of transportation for the agriculturally rich Cache Valley.<sup>43</sup> As the line was planned, the tracks were to pass through the Mormon communities of Franklin and Soda Springs, Idaho, and on to Montana. In order to follow this route, permission was obtained to go through the public domain.

After reaching just inside the Idaho line at Franklin in 1873, the building was suspended when the panic occurred.<sup>44</sup> During the depression, Jay Gould obtained control of the line, paying only 40 cents per dollar for the bonds and receiving the stock as a gift. But he was unsuccessful in alleviating the financial distress, so that the road was finally sold at auction to the Union Pacific Railway on April 3, 1878. The following month it was reorganized and the name was changed to the Utah and Northern Railway Company.<sup>45</sup>

To arrange for completion of the line, Jay Gould floated a bond issue for \$4,991,000. After passing Pocatello in August, 1878, the tracks reached Eagle Rock (Idaho Falls) in the spring of 1879. At this point, a bridge was constructed across the Snake River to allow the line to proceed to Montana. By 1881, the ties were laid to Butte and two years later connection was made with the Northern Pacific at Garrison. The total distance covered by the Utah and Northern was 466 miles.<sup>46</sup>

Another unsuccessful railroad venture for the Mormons occurred in 1881 when the Salt Lake and Park City Railroad filed articles of incorporation to build a road between these points. John Young again promoted this line and, failing to raise the necessary capital in the United States, he went to France where he received aid from a Spaniard named Rodriquez Valasquez de la Gorgozada.

He readily invested \$1,000,000 in this railroad when John Young promised to name the town of Gorgoza after him. The road was built as a narrow gauge line in five years, and it too went bankrupt. It was later made a branch line of the Denver and Rio Grande Western Railroad.<sup>47</sup>

<sup>43</sup> For details of the construction, see Abe Lillibridge, "Utah and Northern," *M. S. No. 47* (n.d.), Idaho State College Museum; Robert L. Wrigley, "Utah and Northern Railway Company," *Oregon Historical Society Quarterly*, Vol. XLVIII (Sept., 1947); *History of Idaho Territory* (San Francisco, 1884); and James H. Hawley, *History of Idaho* (3 Vols.; Chicago, 1920). See also Jay Gould's testimony before the Pacific Railroad Commission, *op. cit.*, pp. 572 ff.

<sup>44</sup> When the Mormons settled Franklin, they assumed it was a part of Utah; a survey in 1871 proved them wrong.

<sup>45</sup> Wrigley, *op. cit.*, p. 251.

<sup>46</sup> Lillibridge, *op. cit.* Narrow gauge (3') track was used on this line because it would cut costs and because Young doubted that standard track (4' 8½") could be utilized in the gorges. The 262 miles between Pocatello and Butte were converted to standard track in one day. See Wrigley, *op. cit.*, p. 250.

<sup>47</sup> *Utah . . .*, *op. cit.*, p. 379.

## THE EFFECTS OF RAILROAD BUILDING

The railroad brought enormous economic changes to Utah and hastened the development of capitalism in that territory and in Idaho and Montana. When the Utah Central joined the Union Pacific, mining was opened up in the now-famous Bingham Canyon region. The rich veins of lead, silver, and copper were put into production, and today the world's largest open-pit copper mine is found there. Mines at Oquirrh and Tintic were also developed. The little Cottonwood, Bingham Canyon, and American Fork branches of the Utah Southern Railroad were constructed to meet the demand for improved transportation to and from the mines. Another branch at Sandy Station was built so that granite could be shipped from the quarry to Salt Lake City.<sup>48</sup>

Agriculture also felt the influence of the railroad, although the effects were not all salutary. Because the prices of manufactured goods declined, agricultural goods became higher priced relatively. This improved the economic position of the farmer generally. Agricultural exports increased, so that by 1887 Davis County alone was sending on the Utah Central Railroad the following freight: <sup>49</sup>

green fruit and vegetables	865,996 pounds
livestock	46,000 head
Lucerne seed	85,442 pounds
grain	6,166,885 pounds
wool and hides	44,489 pounds

Not only did the improved transportation make it possible to step up exports, but the building of the Utah and Northern Railway gave the Mormons a claim to the very fertile Upper Snake River Valley in Idaho.<sup>50</sup> Although the Mormon loss in the building was very substantial, it was offset partly by the gains from the traffic through the Mormon community in this valley. The volume of this traffic was considerable. In 1880, 17,000 passengers were transported; 35,600 tons of freight were carried; and 293 persons were employed by the line. In that one year alone, the net profit was \$247,000.<sup>51</sup>

The Mormons also adjusted to the economic revolution in the

<sup>48</sup> Nibley, *op. cit.*, p. 491.

<sup>49</sup> From the books of the Utah Central Railroad, cited in Tullidge, *op. cit.*, p. 170.

<sup>50</sup> See Samuel M. Beal, *The Snake River Fork Country* (Rexburg, 1935), and B. W. Driggs, *History of Teton Valley* (Caldwell, 1926).

<sup>51</sup> *Report of the Territorial Controller, 1879-80* (Boise City, Idaho, 1880). *Poor's Manual* for 1882 points out that the Utah and Northern earned \$3,271.84 per ton mile — an excellent record for its location (p. 858).

manufacturing sector. New companies were created to manufacture finished goods from imported raw materials. The Mormons who supposedly feared the railroad were now using it to develop a manufacturing region in the intermountain West. Towards this end, the Utah Manufacturing Company, the Dinwoodey Furniture Company, and the Provo Manufacturing Company were founded.<sup>52</sup>

Although the church leaders hailed the railroad, they feared the many social problems it brought. Before the railroad, the Mormons were relatively isolated politically and physically. The iron roads made the Mormons dependent on Eastern capitalists and it gave rise to a gentile merchant class. More important, it was felt that the gentiles would obtain the commanding economic position in Utah. Cash brought in by the railroad would provide capital for gentile stores, banks, and manufacturing establishments.<sup>53</sup> Prior to the junction of the Union and Central Pacific railways, the few gentile merchants were squeezed by the Mormon suppliers, since Mormons were directed not to sell to gentiles. The railroad changed this; therefore, the boycott which was in effect before its coming was now to be more strenuously enforced.<sup>54</sup> In conjunction with the boycott of gentile establishments, the Zion Cooperative Mercantile Institution was organized to keep the Mormons isolated in spirit if not physically.<sup>55</sup> The gentiles replied to the boycott by offering to sell out to the Mormons, but the church refused their offer.<sup>56</sup> The Z.C.M.I. began business on March 1, 1869, but was not incorporated until December, 1870. The purpose of the order was to bypass the gentile middleman by importing in large quantities. Citizens in each settlement were to form local groups which promised to make all purchases from the Z.C.M.I. only.<sup>57</sup> The Institution did a colossal business. Anderson estimates that in the five-year period from 1870 to 1875 gross sales were over \$15,000,000. During this time stockholders received a 78 per cent cash dividend, and a 52 per cent reserve was added to the capital stock. Almost every ward<sup>58</sup> had a branch and it was customary for church members to invest their surplus cash in one of these branches. As soon as the Z.C.M.I. was

<sup>52</sup> Arrington, "The Transcontinental Railroad . . .," *op. cit.*, p. 152.

<sup>53</sup> Anderson, *op. cit.*, p. 257.

<sup>54</sup> The *Deseret News*, July 12, 1866, pointed out that the gentile traders were "avowed enemies of the people," and it proposed that their businesses not be patronized.

<sup>55</sup> B. H. Roberts, *A Comprehensive History of the Church of Jesus Christ of Latter-day Saints* (Salt Lake City, 1930), p. 229.

<sup>56</sup> The *Salt Lake Daily Telegraph*, Dec. 20, 1866.

<sup>57</sup> Edward J. Allen, *The Second United Order Among the Mormons* (New York, 1936), p. 39.

<sup>58</sup> A ward compares to what most churches call a parish.

firmly entrenched as a going concern, the church leaders began to consider the re-establishment of the United Order. The United Order directed the church members to deed all their property to the church, and the officials would distribute it in accordance with the ability to manage.<sup>59</sup> This organization of society would recapture the strict economic control of Mormon labor and capital. United Orders were established in St. George, Sevier, Richfield, Orderville, Brigham City, Kingston, and Sunset City.

Both the Z.C.M.I. and the Second United Order declined in importance for many reasons. As more gentiles came into Utah, it was very impractical to attempt to isolate the two groups; in fact, many gentiles and Mormons became partners. Most non-Mormons represented the church's efforts and combined to exert economic pressure on the members. Mine owners ceased hiring Mormons, and the federal government refused to grant contracts to them.

### CONCLUSIONS

Brigham Young stated on many occasions that he was constantly working for a transcontinental railroad. Perhaps the most definitive statement of his attitude can be found in his speech given at Provo some time after the railroad was a reality. These excerpts are very cogent:<sup>60</sup>

[In April, 1847] . . . when riding in advance of that company, with my then first counselor, Heber C. Kinball, and others, to search out the route for the wagons to follow, we were carefully watching for and frequently conversing about a route for a railroad across the continent.

It is thus clearly shown that from the time of our leaving the Missouri River, our attention was drawn to and our influences exercised in favor of an inter-oceanic railroad.

The railroad was not an unmixed blessing for the Saints. It gave Utah an outlet for low-grade ores, for beef, for wool; but it also destroyed many small enterprises which could not survive the competition. Exports increased over 800 per cent, and imports increased in about the same proportion. The Mormons did prefer isolation in the beginning, but seeing the great profits which could be gained through increased interregional trade, they allowed the pragmatic

<sup>59</sup> *Doctrine and Covenants*, 104: 47-53. The Mormons believe that the United Order was established by Joseph Smith through divine revelation. It was tried in the early 1830's but failed, so the idea lay dormant until the gentile threat after 1869.

<sup>60</sup> Quoted in Nibley, *op. cit.*, pp. 500-501.

elements of their religion to win out. Thus did they welcome the new mode of transportation in spite of the dangers of loss of control.

In building the railroads and in offering aid, the Mormons planted the seeds for the ultimate destruction of the older social and economic institutions, although it was not until the twentieth century that freedom of enterprise had completely supplanted cooperation in the Mormon communities of Utah.

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## Industrial Experiments in the Wilderness: A Sidelight in the Business History of the Hudson's Bay Company\*

*Development of the North American continent was a halting process, characterized by use and misuse of latent opportunities. The Hudson's Bay Company, giant in fur trade and northern exploration, proved by trial and error experiments that abundant natural assets were not in themselves the magic key to wealth.*

While at first glance the histories of the Virginia Company and the Hudson's Bay Company seem quite dissimilar, closer inspection reveals a distinct likeness. It is true that there are more differences than similarities between them. The Virginia Company spent its short unhappy life searching for the exportable staple that would bring wealth to its stockholders. The Hudson's Bay Company, a more conservative enterprise, did not receive its final corporate form until an exploratory voyage had been carried out and the prospective entrepreneurs could view for themselves the treasure in furs that was brought back to the Thames. The likeness that the Hudson's Bay Company bears to the earlier joint stock venture lies not in its successes but in its failures. Both concerns tried to establish industries in a new world whose surroundings were by nature inhospitable to a higher economy. The Virginia Company's list of endeavors is long and tedious to recite: a silk industry, glassworks, a winery, an iron foundry, and other ventures. Less well known are the industrial experiments conducted by the Hudson's Bay Company in its Red River Settlement. Perhaps they are more bizarre than those seen along the James River; but they, too, ended in failure, proving again the economic canon that industry cannot flourish in the wilderness.

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\*The author would like to thank the Governor and Committee of the Hudson's Bay Company for permission to use the H.B.C. Archives on microfilm in the Public Archives of Canada, Ottawa.

In 1670, Charles II of England bestowed a magnificent grant upon certain of his subjects who became thereby the lords and owners of Rupert's Land, a vast region comprised of the Hudson Bay drainage basin. A royal charter, however, was not enough to guarantee a trading monopoly. For 150 years, the Hudson's Bay Company was plagued by interlopers from Montreal, French till 1763, and English thereafter, who sought to divert the furs of the West through the Great Lakes and down the St. Lawrence. In the end, geography decided the contest. For the men of Hudson Bay had one advantage that all the zeal and organizational skills of the Northwest Company could not overcome. They could lay down their trading goods in the middle of the continent. The Montrealers had to paddle and portage their goods halfway across North America and more. In 1821, the Northwest Company averted bankruptcy by merging with the Hudson's Bay Company. At last, the honorable company was mistress in her own home.

After the merger, the surviving company turned its attention to the problems involved in reorganizing the fur trade. In their struggle for the control of the Northwest, both the Hudson's Bay and the Northwest companies had sprinkled the area with posts and personnel; but with amalgamation, such coverage was pointless. In the interests of economy, countless posts were abandoned and hundreds of employees were released from the service. But if an abandoned post posed no problem, an army of discharged servants did. To allow them to shift for themselves in the interior would be imprudent and impolitic. Such a course of action could endanger the trading monopoly of the company in Rupert's Land, or jeopardize its reputation — and its charter — in the British Isles. There was only one solution: The ex-servants and their families had to be gathered together and brought to the Red River Settlement, "where they . . . [could] maintain themselves and be civilized and instructed in religion."<sup>1</sup>

The Red River Settlement had been born in 1811, the child of practical and humanitarian parents. In that year, the Hudson's Bay Company granted to a stockholder, Thomas Douglas, the Earl of Selkirk, an enormous estate of approximately 116,000 square miles. This grant, thereafter known as Assiniboia, covered that part of present-day Manitoba which lies below Lake Winnipeg, extending

<sup>1</sup> The Governor and Committee of the Hudson's Bay Company to George Simpson, Feb. 27, 1822. Hudson's Bay Company's Archives, on microfilm in the Public Archives of Canada, Ottawa, Canada. Series A.6. Hereafter references to the company's archives shall be given: H.B.C.



some distance into Saskatchewan, and reaching down into Minnesota and North Dakota to the southern limits of Rupert's Land. The company gave Assiniboia to Selkirk because it hoped to reduce its operating costs through the establishment of an agricultural colony that could provide the trade with cheap food. The benevolent lord accepted the grant, and the huge financial obligation it entailed, in the hope of fashioning an asylum for his fellow Scots, the crofters then being expelled from the Highlands by the enclosure movement.

From the moment of its planting on the forks of the Red and Assiniboine Rivers, Selkirk's colony seemed to have charted its course by an unlucky star. Not till 1817 was it freed from the terror of the neighboring half-breeds (*métis*) who had lived in Assiniboia long before it was named and resented the intrusion of alien farmers into their buffalo grounds. And although secured at last from human foes, the little settlement soon encountered other antagonists. Clouds of locusts fell upon the land in 1818 and 1819 and consumed all the crops; and had not the colony been able to procure seed wheat from the United States in the following year, it might have collapsed. Slowly the settlers began a rebuilding process that was intensely complicated by the arrival of the company's ex-servants into their midst in the early 'twenties. But once again their dreams were destroyed and this time by the great flood of 1826. Though the worst disaster, the flood was fortunately the last to strike Red River for many years. In the next year, Nature began to smile upon the settlement; and the little colony responded by fulfilling the economic role that Lord Selkirk and the company had envisioned.<sup>2</sup>

After a visit to the settlement in 1827, George Simpson, the Governor of Rupert's Land, confidently expressed the hope that, with one or more favorable seasons, the settlers would not only be able to provide themselves with food but would also be able "to furnish the Honble Company with any quantity that may be required for the Fur Trade."<sup>3</sup> In the following year, the little governor declared that the colony was no longer a "burden" to the company — "on the contrary it is becoming advantageous to its interests and if it continues to prosper . . . it will present a field for other pursuits and branches of [the] Trade."<sup>4</sup> Time bore out Simpson's prognosis.

<sup>2</sup> Selkirk died in 1820 and his estate (including Assiniboia) fell into the hands of his son, the sixth Earl of Selkirk. In 1836, the Hudson's Bay Company purchased the Selkirk grant, "being of opinion that it would be better and with greater facility managed if entirely in the hands of the Company." The Governor and Committee to Simpson, March 9, 1836. H.B.C. Series A.6.

<sup>3</sup> Simpson to the Governor and Committee, July 25, 1827. H.B.C. Series D.4.

<sup>4</sup> Simpson to the Governor and Committee, July 10, 1828. H.B.C. Series D.4.

The river banks were soon highly cultivated, rewarding the farmers with ever-increasing harvests; while the back plains were covered with cattle and swine. The orders of the company upon the settlement lengthened. Beef, pork, and ham were added to the list of flour, barley, peas, and corn; and the quantity of all mounted through the years.

A decade of good weather established the basic agricultural economy of the Red River Settlement; but, in the process, it created the problem of overproduction. For the farmer and the half-breed hunter of the plains, there was only one market: the Hudson's Bay Company. Although George Simpson had promised to buy all his provisions from the colony, "in a short time all the wants of the Company were supplied."<sup>5</sup> Since the demands of the company were fixed, prices plummeted as production soared.<sup>6</sup> Simpson could rightfully take pride in his creation; but his satisfaction was not shared by the farmers of Red River. By 1832 their market was saturated.

The plains hunters faced the same problem. During this period, 1827-1835, the buffalo herds were numerous and close at hand and the number of hunters grew annually. With the development of competing beef and pork products within the Red River Settlement, the market for pemmican inevitably shrank. Here, too, the saturation point was reached in 1832. Indeed, in the fall of 1831, Simpson found the half-breeds "rather clamorous & dissatisfied because . . . [we] declined purchasing all the pemican [sic] they presented for sale, although we had no occasion for it. . . ."<sup>7</sup> With his talent for diplomacy, Simpson was able to quiet the métis. The settlement remained tranquil; but its future would be highly uncertain unless Simpson and the company took steps to correct its economic ills.

For nearly two decades, Simpson wrestled with the economic problems of the Red River Settlement and achieved, at best, only a limited success. For its agricultural surplus, the colony required a market larger than the company with its limited orders. But how could an external market exist for the bulky food products of Red River? Freightage would be prohibitive. Therefore, the colony needed an exportable surplus other than food. And since the United

<sup>5</sup> Alexander Ross, *The Red River Settlement* (London, 1856), p. 115.

<sup>6</sup> In 1834, the company directed Simpson to freeze prices for the next three years. The Governor and Committee to Simpson, March 5, 1834. H.B.C. Series A.6.

<sup>7</sup> At the same time, the half-breeds brought up several other claims against the company; but without strong leadership on their part, Simpson "had little difficulty in bringing them to order without conceding one single point." Simpson to the Governor and Committee, Aug. 10, 1832. H.B.C. Series A.12.

States, as a market, was inconceivable — ruled out by geography in that age and by the company's self-interest in any age — it had to be a staple with a ready demand in the British Isles.

The need of the Red River Settlement for such a staple became more urgent every year. One index of that need was the increasing volume of cash sales through the company's retail shops of European manufactures. By 1830, it had reached the figure of £6,000 to £7,000;<sup>8</sup> and, four years later, it had risen again to over £9,000.<sup>9</sup> This was a sum that far exceeded all the money disbursed by the company to the various settlers on its payroll in the colony. The rest came from savings and the retirement pay of ex-servants, and the result was an intolerable trading imbalance. Many settlers grew discontented and considered migrating to Canada or to the United States, "where they could find a market for the fruits of their industry."<sup>10</sup> The plain fact was that the settlers were all sellers, not buyers; and unless the situation were remedied, Simpson feared that the settlement would "either break up, or the Settlers divert their attention to the Fur Trade, and under American protection they would be formidable opponents indeed."<sup>11</sup>

The task of developing an exportable staple fell upon Simpson's shoulders. The diminutive Scot came up with a fantastic variety of schemes. He had the fertile, flexible mind of the superb businessman. Presumably he had learned a lesson from the history of the Buffalo Wool Company, a hapless concern created in 1820 by Lord Selkirk to provide the local market with buffalo skins and British clientele with fine cloth woven from the wool. From beginning to end, the company had been a failure. At any rate, Simpson put his trust only in agrarian operations or extractive industries whose unit cost depended almost wholly upon the cheap and available natural resources of Rupert's Land.

Simpson's first step was to create sheep farms for the production of raw wool for British textile mills. In the summer of 1829, he proposed a scheme to set up sheep walks on an immense scale.<sup>12</sup> According to its elaborate prospectus, a joint stock company, the Assiniboine Wool Company, would be established with a capitalization of £60,000, two-thirds to be subscribed by various gentlemen of Rupert's Land and the balance by the Hudson's Bay Company. It

<sup>8</sup> Simpson to the Governor and Committee, Aug. 26, 1830. H.B.C. Series D.4.

<sup>9</sup> Simpson to the Governor and Committee, July 21, 1834. H.B.C. Series D.4.

<sup>10</sup> Simpson to the Governor and Committee, July 18, 1831. H.B.C. Series D.4.

<sup>11</sup> Simpson to the Governor and Committee, Aug. 10, 1832. H.B.C. Series D.4.

<sup>12</sup> Material on the Assiniboine Wool Company is found in H.B.C. Series F.30.

was to be a massive operation, with sheep, dogs, and shepherds imported from England — and all employed on vast walks of some 200,000 acres in all. Wool would also be purchased from the Red River settlers; and in payment, the company would tender its own notes which could then be cashed at its retail shops. In the enterprise, however, the Hudson's Bay Company would play the leading role. In addition to providing capital, the company would sell the wool in England and bear all the costs of transportation. But the Governor and Committee eyed the project with the disinterest it deserved and dispatched it with the remark that they would consider such an enterprise only if it were conducted as a branch of the fur trade.<sup>13</sup>

At the same time that Simpson conceived of the Assiniboine Wool Company, he was also making plans to import sheep from the United States and sell them to the Red River settlers. If raised successfully, the sheep would not only supplant British cloth with homespun but might also provide the settlers with an exportable surplus of wool. Accordingly, he made a contract with a St. Louis friend for the delivery of from three to four hundred sheep at the Red River Settlement during the summer of 1828.<sup>14</sup> The necessary arrangements were made in the United States, but the drovers got only two-thirds of the way to their destination. Their drive was halted by a band of Sioux who fell upon them, slaughtered most of the livestock, and scattered the rest over the plains.<sup>15</sup> That winter Simpson ordered an even larger flock; but neither this nor subsequent orders bore any fruit, for the Missouri drovers were apparently unwilling to venture into Sioux country again.

After three years of futile correspondence with St. Louis, Simpson decided to act for himself. At his suggestion, various settlers in the colony pooled their resources and oversubscribed to a fund for the purchase of sheep in the United States.<sup>16</sup> In effect, an informal joint stock company was fashioned, composed of shareholders, large and small, whose returns in sheep would equal their investment. Led by a clerk of the Hudson's Bay Company, a group of settlers set out for Missouri.<sup>17</sup> Disappointed by high prices in that state, they crossed over into Kentucky, where they finally secured a large

<sup>13</sup> Governor and Committee to Simpson, March 30, 1830. H.B.C. Series A.6.

<sup>14</sup> Simpson to the Governor and Committee, July 10, 1828. H.B.C. Series D.4.

<sup>15</sup> E. T. Langham to General William Clark, Fort Snelling, Aug. 14 and 18, 1828. Lawrence Taliaferro Papers, Minnesota Historical Society, St. Paul, Minnesota.

<sup>16</sup> Simpson to the inhabitants of Red River, Oct. 25, 1832. H.B.C. Series F.30.

<sup>17</sup> Robert Campbell, "A Journey to Kentucky for Sheep," *North Dakota Historical Quarterly*, Vol. 1, pp. 35-45. Cf. Ross, *Red River*, pp. 146-150.

flock. Until then the journey had been pleasant enough; but the return to Red River was a nightmare. The long trail home was strewn with the carcasses of sheep which perished en route from disease or exposure. When the weary drovers reached the colony, less than a fourth of the original flock was still alive.

Simpson miraculously managed to salvage a great deal from the disaster. He returned the subscriptions — swallowing the loss — and placed the balance of the sheep in the care of the company's experimental farm. The small, light-fleeced sheep thrived in their new surroundings, nearly doubling in numbers within two years. The quality of the flock was presently enhanced by the addition of Merino and Leicestershire stock imported from England. Simpson's hopes for an export trade grew brighter as more and more farmers, favorably influenced by his example, began to raise flocks of their own. But the end result was not an export — despite Simpson's sanguine expectations — but rather the establishment of a household industry. By 1839, most of the settlers were clothed in woollens of their own growth and production. If Simpson had failed to remove the trading imbalance, he had, at least, alleviated some of its ills by stimulating household industries in the Red River Settlement.

At first glance it seemed to Simpson as if flax would be as likely a candidate for the export trade as raw wool. The soil and climate of Red River were ideal for the plant. Indeed, by 1828, the settlers were already growing enough to meet their own requirements for linen.<sup>18</sup> With an apparent abundance of cheap labor, all that was needed was a mill to prepare the flax fibers for market. Simpson secured a working model of a mill and persuaded a settler with known engineering talents to build a mill capable of processing 1,000 tons of flax every year.<sup>19</sup> Then, to insure the mill of adequate supplies, Simpson promised generous premiums to those who grew the largest and best crops in the settlement and a like reward to those who spun the best flax. In addition, the project received the full support of the Governor and Committee.<sup>20</sup> From the British Isles, they sent out an expert in the cultivation and production of flax, determined the state of the market in London, and instructed Simpson to buy all the marketable flax at a price that reckoned transportation to market at cost.

Paternalism again failed to fashion a staple. Stimulated by the

<sup>18</sup> Simpson to the Governor and Committee, July 10, 1828. H.B.C. Series D.4.

<sup>19</sup> Simpson to the Governor and Committee, Aug. 10, 1832. H.B.C. Series D.4.

<sup>20</sup> The Governor and Committee to Simpson, March 5, 1834. H.B.C. Series A.6.

offer of premiums, the settlers eagerly planted flax; but their zeal was nullified by their ignorance. The growth of flax is an operation that demands considerable skill. Unless checked, weeds easily choke out the young plants; and the farmers of Red River, never renowned for their careful husbandry, did not adequately cultivate their fields. After harvest and before it is brought to the mill, flax is commonly retted or soaked by pulling up the plants and exposing the fibers to the dew. Here, too, the settlers manifested their ignorance by over-exposing the flax until part of the crop became too brittle, while the rest rotted "like dung" on the ground.<sup>21</sup> A little was exported to England, of fair quality but unable to compete with the superior Russian product; and in the end, the flax mill stood idle, a costly monument to Simpson's schemes, for not enough flax was ever raised to operate it.<sup>22</sup> Hemp, a plant whose production and growth bear resemblance to flax, was also tried in the Red River Settlement; but its history need not be told, for it passed through the same experimental cycle and suffered the same fate.

Simpson was a most imaginative businessman, always considering the possible production of articles that might be of benefit either to the company or the Red River Settlement. In his pursuit of exportable staples from Rupert's Land, he conceived of many projects and speculated upon countless items of trade. At one time or another, he and the company investigated the commercial possibilities of sarsaparilla, wild hops, sea horse teeth, coal, and tallow. Each item was closely examined but none quite filled the bill. The sarsaparilla indigenous to Rupert's Land lacked the medicinal qualities found in other, more marketable varieties. Because of high duties, hops could not be profitably imported into England. Although the quality of the sea horse teeth (used by dentists of the day) was good, yet the market was chronically glutted. And coal mining never got beyond the planning stage, for the experienced miners required to perform the exploratory work demanded such extraordinary wages. Of the above articles, only tallow showed some promise; and for its production, the Red River Settlement seemed the most likely site.

Simpson persuaded some of the settlers to form the Red River Tallow Company, a joint stock venture whose modest career began in 1831 with some four hundred cattle and the vision of exporting

<sup>21</sup> Ross, *Red River*, pp. 138-140. Cf. the Governor and Committee to Simpson, March 4, 1834. H.B.C. Series A.6.

<sup>22</sup> Simpson to the Governor and Committee, July 6, 1839. H.B.C. Series D.4.

hides and tallow to England.<sup>23</sup> Simpson was sure that, with five years' time, the company would be able to ship out the hides and tallow of one thousand cattle every year. The Governor and Committee did not share his enthusiasm.<sup>24</sup> The first shipments of tallow found a market but the Red River product was decidedly inferior to its Russian competition. Nonetheless, the Hudson's Bay Company supported the venture, transmitting strychnine for the wolves that preyed upon the herds — and when poison proved ineffective, sending out wolf dogs from Italy, France, and Spain, and deer hounds from Scotland. Given protection, the herds increased in numbers; but ironically enough, the final result was not an export in hides and tallow to England but rather a brisk trade in livestock with the United States.<sup>25</sup>

Cattle could be driven to market, but what of the other staples? If the Red River Settlement ever developed a large trade with England in wool, flax, or hemp, the transportation system of the company with its trunk line from the settlement to Hudson Bay would not be able to carry the added burden. To guard against this contingency, Simpson planned to build a winter road that would slice through the forests and cross the frozen swamps en route to the bay. It was a dream that had intrigued Selkirk and would torment Simpson. Projected in 1825, it was temporarily halted by the great flood of 1826; but thereafter, work was begun in earnest. In the winter of 1828–1829, Simpson's expectations rose to the heavens when a trial shipment of some two tons was successfully borne by dog sled from the settlement to Norway House near the northern tip of Lake Winnipeg.<sup>26</sup>

The next year's effort was a grisly failure.<sup>27</sup> The plan had been to carry approximately fifty tons, utilizing oxen instead of dogs. Simpson had counted on good management and decent weather. He got neither. The man in charge of the enterprise bungled the job and, in the process, ruined his health; while the oxen froze their feet and had to be destroyed. None of the goods reached their final destination. Such a disaster would have disheartened any man; but, incredibly enough, Simpson was still convinced that the winter road could succeed. Further development, however, was postponed until

<sup>23</sup> Material on the Red River Tallow Company is found in H.B.C. Series F.31. Most of the cattle in the settlement were longhorns which had been driven up from the United States in the 1820's.

<sup>24</sup> The Governor and Committee to Simpson, March 5, 1834. H.B.C. Series A.6.

<sup>25</sup> Simpson to the Governor and Committee, July 8, 1839. H.B.C. Series D.4.

<sup>26</sup> Simpson to the Governor and Committee, June 30, 1829. H.B.C. Series D.4.

<sup>27</sup> Simpson to the Governor and Committee, Aug. 26, 1830. H.B.C. Series D.4. Cf. Ross, *Red River*, pp. 153–154.



the settlement's export trade outgrew the existing means of transportation — and that day never dawned.

Much of the failure in the flax, hemp, and like projects could be attributed to the general ignorance of the Red River farmer, a not uncommon phenomenon in any frontier community. To the company and to Simpson, such ignorance was intolerable — “as without an export of some description it is impossible [that] a growing Settlement can prosper.”<sup>28</sup> At great cost, the company launched three experimental farms “to introduce a system of tillage and pastoral [sic] agriculture, previously unknown in the settlement, from which the inhabitants might, by pursuing the same, derive advantage.”<sup>29</sup> The farms became known as the “three unfortunate sisters.”<sup>30</sup> The manager of the first, which was really a Selkirk enterprise, deserted his post for the greater opportunities of the fur trade in the United States.<sup>31</sup> The manager of the second, till then a highly respected chief factor in the company's service,<sup>32</sup> stuck to his post, although in four years' time his experimental farm produced little more than butter and pork for the company and taught nothing to the settlers.

Of all the experiments, the third farm was the largest, most costly — and most short-lived. With a manager versed in the theory and practice of agriculture and a full complement of from 12 to 15 indentured servants and their families, the farm was meant to be a showplace, demonstrating how to grow flax and hemp in the approved manner. Nothing worked according to expectation. The settlers disliked the farm, fearing that its output would contract an already limited market. Furthermore, they learned little or nothing from its operations. The farm manager was incapable of overseeing his servants; while the latter were disorderly and indolent men who “could neither work nor eat without the beer pot at their lips.”<sup>33</sup> The company vainly tried to keep these rogues in line by deporting their ringleaders to the Columbia Department. But no disciplinary

<sup>28</sup> The Governor and Committee to Simpson, March 7, 1838. H.B.C. Series A.6.

<sup>29</sup> The Governor and Committee to Duncan Finlayson, March 4, 1840. H.B.C. Series A.6.

<sup>30</sup> Ross, *Red River*, pp. 211–221. Ross cynically questioned the company's motives in the establishment of the farms.

<sup>31</sup> William Laidlaw (the manager) deserted the company in the fall of 1821 and, together with William McKenzie, went to Lake Traverse and joined with a Sioux half-breed, Joseph Renville, in the formation of the Columbia Fur Company. This company was bought out by John Jacob Astor's American Fur Company, in 1826. McKenzie and Laidlaw remained in Astor's concern, managing the famous (and infamous) Upper Missouri Outfit.

<sup>32</sup> Among the commissioned officers in the company's service, James McMillan (in Simpson's eyes) held a position of the greatest importance. R. Harvey Fleming, ed., *Minutes of Council, Northern Department of Rupert's Land, 1821–31* (Toronto, 1940), pp. 450–451.

<sup>33</sup> Ross, *Red River*, p. 215.

measure was effective. In 1840, when only a handful of servants was left, the experiment was terminated.

Although the Hudson's Bay Company and George Simpson struggled to endow the Red River Settlement with a staple, none of their many designs succeeded. In some cases, a household industry was brought to life in advance of its normal expectancy in a frontier community. In others, a diminutive export trade was accidentally developed, if in the wrong — American — direction. Yet it is to be doubted whether anyone could have achieved more. According to the facts of economic life, industry, extractive or otherwise, will not readily flourish in a wilderness; and Rupert's Land was more inhospitable than most primitive countries. It was situated in a northern region whose secrets are still being unfolded. It was remote from markets and possessed a transportation problem complicated not only by distance but also by weather and terrain. Furthermore, like all frontier societies, Red River lacked the basic industrial ingredients of capital and cheap, skilled labor. None of these defects could be remedied by a man-made program of dynamic paternalism.

Not until mid-nineteenth century did the Red River Settlement discover an exportable staple. By the 'forties, alien traders had bridged the gap between Rupert's Land and civilization; and within a decade, despite the efforts of the company to prevent it, a bustling trade had grown up between the Red River Settlement and the outside world. Ironically enough, in the economic "salvation" of the colony lay the undoing of its parent, the Hudson's Bay Company. For the staple was fur and the market was the United States. The Red River Settlement found an export — but the Hudson's Bay Company lost a trading monopoly.

## A REVIEW ARTICLE

*By John E. Sawyer*

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AT YALE UNIVERSITY

### Entrepreneurial Studies:

Perspectives and Directions, 1948-1958

#### I

The sustaining encouragement which Arthur H. Cole has given to entrepreneurial history for more than a decade makes the formal termination of the Research Center in Entrepreneurial History, which he founded and guided, an occasion for trying to discern the course of entrepreneurial studies and some directions that have emerged from the Center's work.

Looked at even briefly, entrepreneurial history has had a curious history of its own — a history that emerged from one major paradox in the nineteenth century and very nearly marched into a second earlier in the twentieth century. The uncertainties surrounding its future suggest that present efforts at self-consciousness may serve a useful purpose.

The initial paradox of entrepreneurial studies has been noted before: the fact that in the very period when industrial capitalism was emerging in the world, and the study of economics itself was taking on its modern form, the crucial role of the entrepreneur was only fleetingly mentioned in the writings of the classical economists.<sup>1</sup> Earlier writers had occasionally addressed themselves quite directly to the entrepreneurial function, sometimes with considerable insight into essentials. In the hundred years from Cantillon (1680?–1734), to J. B. Say (1767–1832), the central function of seeing and “combining” and committing resources under conditions of uncertainty

<sup>1</sup> Joseph A. Schumpeter, *History of Economic Analysis* (Oxford and New York, 1954) pp. 222, 554–557, 645–647, offers the most comprehensive review.

was on occasion explicitly recognized.<sup>2</sup> While given only limited elaboration, the core of a coordinating, anticipating, "enterprising" rôle was discussed as such. In the century that followed, when the classic pattern of the individual entrepreneur was coming into full flower, these functions were little analyzed in the professional literature of economics. Particularly was this true in England, in the period when her entrepreneurial leadership was most conspicuously in view.<sup>3</sup>

Obviously this relative absence of analysis did not reflect any absence of entrepreneurs, vigorously and visibly performing their tasks. Nor can it, I believe, be attributed to blindness to what was going on; modern social science has already heaped more than enough of this on the Victorians. The explanation seems to fall rather at the opposite pole: in the abundant presence of classical individual entrepreneurs performing their rôle so "naturally" amidst the institutions of their time that their existence and function could be — and was — assumed to be universal. Analysis rarely concerns itself with the obvious; and so, here, a highly specialized performance in a given time and place was taken as a given, a constant in human affairs requiring little scrutiny. Economics could concentrate on the factors and their allocation and returns: the natural propensity of men to truck, barter and exchange was deemed sufficient unto the day.

For the period and scene of the nineteenth century in England, these assumptions were not immediately crippling. Such a local approximation could serve. It took wider horizons of time and place to reveal the complex of motivations and actions contained in entrepreneurial rôles.

By the turn of the century a theorist as pragmatic and observant as Alfred Marshall was looking more extensively into variations in entrepreneurship and organization in economic life, and giving greater play to their causes and consequences. In his *Principles*, but still more in the comparative studies in *Industry and Trade*, he dealt at length with historical, educational and social as well as economic determinants of given patterns, and with their bearing

<sup>2</sup> That Cantillon discussed it particularly in connection with the farmer suggested at an early stage something of the generality of the function to which we shall return later.

<sup>3</sup> J. S. Mill's partial entry upon the subject need not upset the above. In a different idiom, of course, contemporary publicists and biographers such as Samuel Smiles did give extensive attention to the creative rôle of the entrepreneur; but their disposition toward the romantic and the heroic and the sheer crudity of much such writing, may have further removed their subject from the central concerns of economics. D. C. Coleman has suggested that the Smiles tradition may have left a negative legacy that still discourages pragmatic analysis of the realities involved.

on the operation of economies. Marshall was not alone in this awareness, of course — historians like Ashley were already pursuing the same threads — nor did he carry it past certain obvious confusions; but his writings and his enormous influence served to bring to the surface essential questions about comparative institutions and creative processes that had been comfortably neglected by economists in England's golden decades.

Other streams of thought and investigation were moving in similar directions. On the Continent the writings of Werner Sombart, Max Weber and other economic historians approached the analysis of entrepreneurial motivation and behavior from very different bases. Weber's work in particular opened the way toward a range of historical explorations of the influence of religious traditions and of differing cultural and institutional settings on business behavior. It has continued to stimulate a vein of historical, sociological, and psychological studies relating to the social context of economic activity.

At a later date in America, F. H. Knight would focus attention within formal economics upon the entrepreneur as bearer of the uncertainties inherent in the capitalist process. While distinct as a contribution and as a conception of the role, and of considerable significance in the domain of economic thought, this thesis has been absorbed into the corpus of economics without giving rise to any separate field of study.

## II

Significantly it remained for an outsider to the most advanced economies of the day, and in some senses an outsider to the daily experience of capitalism itself, to attempt a full-blown entrepreneurial theory of capitalist development. The fact that Schumpeter, as scholar, observer, and human being, was deeply rooted in Continental traditions, and remained deeply committed to their values, undoubtedly contributed to the dramatic form he gave to his conception of the entrepreneurial role and to his emphasis on its historic novelty. This, as we know, captured his vision, and out of it he built with both élan and excess. The heroic entrepreneur became and remained the heart of his system, the ultimate dynamic of the process, "the pivot on which everything turns" — and the figure and fiction that fascinated him to the end.<sup>4</sup> While subsequent inquiry

<sup>4</sup> The above phrase is quoted from his *History of Economic Analysis*, p. 555, but

has departed from his conception, as we shall see, there can be little dispute about his part in placing the question squarely before modern economics and giving momentum to its historical investigation.

Yet just here the study of entrepreneurship verged upon a second paradox: the author who gave the greatest thrust to the concept of an entrepreneurial role had so identified and historically circumscribed it that he might have unwittingly closed the circle on its identification as a diffuse and varied set of functions.

The danger in retrospect appears to have been of two sorts. Most serious might have been the vitality and historical concreteness with which Schumpeter identified *the* entrepreneurial function with a particular set of agents who exercised it in a particular place and time. For Schumpeter, despite refinements that can be found on the edges, linked his conception to the innovating giants, to the bearers of great visions and risks, the barons of a belligerently expanding capitalism. As long as the Fuggers or Rothschilds, Rhodes or Vanderbilts flourished, he assured them their place in the sun, not only in the world of affairs but in economic analysis as well. Schumpeter's sun was an arbitrary shaft, however. It shone only on the few who were exercising a striking role in a striking way at a striking time. It was, he insisted, a limited and localized phenomenon.<sup>5</sup> With the passing of that era, clouds such as had earlier obscured the question might have again descended and veiled anew the presence of the several functions in varied guises.

The second danger lay in what might be called the excessive clarity of his argument. Overstatement is perhaps a necessary attribute of innovation in the world of thought. The sharpness of definition and force of illustration needed to give a new conception its carrying power, tend to press it beyond the empirical accommodations it must settle down to live with.<sup>1</sup> In Schumpeter's case, the categorical differentiation between innovation and adaptation, between entrepreneur and manager, between creative and imitative are distinctions that must yield to the relentless erosion of degree. Similarly, any effort to fix the locus of the dynamics of economic

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others like it run through his writings as they ran through his talk. The essential has been well caught in Arthur Smithies' appreciation and other of the articles of his life work that were gathered together in the memorial volume, *Schumpeter: Social Scientist*, ed. by Seymour Harris (Cambridge, Mass., 1951).

<sup>5</sup> Compare for example the demise of the function as set forth in Part II of his *Capitalism, Socialism and Democracy* (New York, 2nd ed., 1947). Had Schumpeter lived another decade his realism would probably have brought some modification here; yet the force of his argument was not easily separated from his emphasis on uniqueness.

processes in a single historic form or a single economic actor cannot weather the tests of time and comparative observation.

Considerable latitude of overstatement is a concession that scholarship properly owes to genius; and Schumpeter may rightly claim his due. But the very sharpness of his conception and vigor of his illustration might have served to close the door he had opened, had the conception of the function been allowed to harden in the mold in which he cast it. Thus the double paradox in the history of entrepreneurial studies: a function little recognized in nineteenth-century economics when in full flower, might have been reinterred by the very insight that did most to unearth it in the twentieth.<sup>6</sup>

### III

Further understanding called for a different turn of effort, less dramatic, less unique, less conclusive. Building on the essence of Schumpeter's insight and the energy of his innovation – and benefiting by his cordial backing – explorations were needed over widely different fields to distinguish the excesses of his argument, to modify the arbitrariness of his categories, to broaden the limits of their application. It would be too much to have expected any immediate theoretical resolution of the problems he left in his wake. The empirical base was too narrow and dynamic theory too primitive. First had to come empirical efforts and “partial” theories seeking to analyze diverse aspects of the function not only in the classic era, but as it appears or fails to appear in contexts ranging far beyond the Western sequences with which Schumpeter was preoccupied.

It is one of the lasting contributions of Arthur Cole to the field of economic history – and by no means the only one – that he provided a base and an impetus for a stream of studies that have significantly contributed to this end. Inquiries which he has fostered or encouraged have developed approaches and generated evidence that may be said to have permanently broadened the base for further investigation. While making no claims to providing us with any new synthesis having the edge of the Schumpeterian model, these explorations have suggested the usefulness of redefining our conception of entrepreneurial functions on broader lines and tracking

<sup>6</sup> Be it clearly noted that nothing in the foregoing should be read to suggest that Schumpeter ever discouraged the divergent departures of others in the field. In his last years, for example, he readily gave his name and support to the then newly created Research Center in Entrepreneurial History and its wider explorations.



them into new quarters. They have established the concept, not of a unique figure tied to one era and place, but rather of a many-sided variable of complex determination, to be analyzed for its presence or absence in various forms and degrees in any economy that moves.

Of the significant lines of exploration that appear to have emerged and to merit further pursuit, I should like to distinguish four. Though no attempt will be made here to catalogue a decade of work at the Center or its offshoots, nor the substantial work elsewhere, some generalizations on directions emerging from work associated with the Center seem visible and worth discerning.<sup>7</sup>

#### IV

1. In the first place there has been the shift of emphasis from the figure to the function; and with it a tendency toward more comprehensive conceptions of that function. The effort to work with history has suggested the need – and the fertility – of transcending the classic image of the heroic individual on the one hand, and the isolated innovative act on the other. It has urged analysis of a spectrum running a broad range of related behavior in widely diverse institutional forms and at many levels of initiative and responsibility. The function is sought not in a single setting and a single actor or action, but wherever significant decisions involving change are made affecting the combination and commitment of resources under conditions of uncertainty.

So treated, the rigid categories break down. There emerges a more or less continuous set of functions, running from the purely innovative toward the purely routine, and present in all societies where economic change goes on over time, whether exercised by the individual, by many individuals, or by group, organization or official agency. It is not necessarily *the* dynamic in all circumstances, but an input altering the flows of economic life, to be located, analyzed and if possible, assessed along with the traditional factors of production. It is a factor in the process of economic change, to be sought from ancient caravan to modern corporation, from medieval Christendom to its Moslem foe, from private citizen to state

<sup>7</sup> A bibliography of articles published in its journal, *Explorations in Entrepreneurial History*, and of books published under its auspices, shows a diversity of interests and approaches that ranges beyond any schematic review. Attention should also be called to the separate streams of production associated with such other centers as that of Hoselitz and Wohl at Chicago or Bendix at California, as well as parallel work abroad.

enterprise — wherever, in Professor Easterbrook's phrase, we find, "decision-making in the investment of time, capital and energy."<sup>8</sup>

Such a shift involves loss as well as gain. It offers none of the resonance of the earlier formulation, and makes analytical clarity much more difficult to sustain. But it also opens the way a good deal wider to the varied appearance of the function in different eras, fields, scale and kinds of activity; to observation and evaluation of degrees of performance; and to probing for the multiple determinants of the motivation and behavior involved therein. As such it has provided some new results, but more important, a new beginning — a beginning that allows pragmatic entrepreneurial questions to be framed for any economy offering significant latitude for choice.

2. A second shift in direction that is discernible in recent work has already been implied in the above: the spreading of attention from the few to the many. Schumpeter's spectacular individual entrepreneur, needless to say, will always deserve observation and should by definition be conspicuous enough to get it. His is a distinct case which has been sufficiently recognized to require less conceptual attention at this stage. The comparative study of entrepreneurial patterns has made us realize, however, that in any complex and reasonably mobile economy it is not just through the obvious innovator that entrepreneurial "inputs" affect the course and rate of economic growth, but through the attitudes, responses, habits and horizons of large numbers of less conspicuous decision-makers widely diffused through an economy, making the daily decisions which tend to sustain or alternatively to dampen the stimuli toward cumulative change.

Even the most traditional of cultures is likely to produce entrepreneurial sports at intervals; and the social patterns of most societies will normally generate a stream of adventurous and creative spirits. Whether these talents and temperaments are regularly channeled into economic pursuits, however, will vary with culture and circumstance; and the extent to which their actions may or may not mesh into a chain of changes in the economy will further depend — in any decentralized economy — on the presence or absence of an army of lesser innovators and imitators, and on the ways in which this larger number perceive and react to shifting objective possibilities.

<sup>8</sup>For a fresh re-casting of some old issues that surround these questions, see his recent paper, W. Thomas Easterbrook, "Comparative Economic History: Problems and Perspectives," *Journal of Economic History*, Vol. XVII, No. 4 (Winter, 1957).

The minor role to which Schumpeter relegated this potential lesser army may be attributed partly to his fascination with the heroic, and partly to his focus on the entrepreneur as bearer of large-scale innovative risk and key to the business cycle. In proportion as interest focuses on comparative secular trends, however, the level of lesser responses — individual or collective — becomes of increasing importance. It is not just the big break-outs and transformations that are critical to sustaining different rates of growth but the sum of multiple minor responses to pressures and opportunities as well. It is these dispersed responses, along with the heroic polar type, that require investigation in appraising the entrepreneurial patterns of a given scene.

3. Once attention moves from the unique act to a range of behavior, and from the few to the many, the problem of cause falls more obviously within the domain of systematic inquiry. No longer does the function stride away into the mists behind highly charged language about the will to command, or men of force and intellect; no longer need it be abandoned either to pretensions of race or mysteries of isolated personalities. It becomes instead — and this is the third line of development I would single out in this brief review — a study of characteristic patterns, a fit subject for comparative social analysis in all its causes and its consequences.

The entrepreneurial giants were supposedly men who would break through anyhow — whether as heroes or pirates — regardless of the opposition of their environment, or even stimulated by the difficulties it posed. But however questionable that proposition may be, even for the few — and I think it is subject to serious modifications even there — no one has made any parallel claim to immunity to environmental influences on behalf of the many. For the multitude of "little guys," the impress of the culture, the channels and pressures of social institutions, the values and horizons of the society, the aspirations and motivations instilled and the alternative opportunities offered are of demonstrable importance for the way in which economic potentialities are perceived and the pace at which they are exploited. The distribution of personality types among different occupations and their motivational patterns fall within the scope of such examination.

The schedule of questions in entrepreneurial investigation accordingly begins from a broader base, running from the most general — what are the apparent possibilities in any economic situation relative to the observed responses, where are entre-

preneurial functions located and through what forms and channels are they organized; — proceeding through an intermediate range, i.e., how do the “objective” opportunities, institutions and value systems of different societies (or smaller groupings) affect the way they recruit, organize, train, allocate and motivate their talent; — and moving toward the more specific: who enter into the different kinds of entrepreneurial roles, how defined, with what goals, incentives, and span of action, producing what patterns of performance, in what sectors, with what consequences, etc. These and an array of related questions may not be wholly answerable in any case, but they are questions that lend themselves to empirical probing and to a cumulative narrowing of the unknown, provided the frame of analysis is designed to comprehend the range of variables relevant for the questions involved.

This broadening of the conceptual frame and awareness of the play of non-economic as well as economic variables in the fulfillment of entrepreneurial functions is, then, one of the results that comparative study has brought forward. As soon as the problem becomes one of why substantial numbers of economic actors perform along varying degrees of a spectrum, the more obviously are we pressed beyond “pure” economics to more comprehensive analysis of the wider basis of performance. To this end, comparative studies on all levels can contribute — *within* industries, economies and eras, as well as *between* regions or nations or sectors or periods.

4. The fourth concern I would like to emphasize is a necessary complement to the third: the effort and the need to link threads of this inquiry back into the main lines of economic analysis. The relevance of research into entrepreneurial patterns for economic history needs no elaboration. But dangers of the separate evolution of history and economics are once again not absent. Like any field, entrepreneurial history has its distinct interests and special problems; and the extent of its immersion in these and its necessary concern with extra-economic variables bearing on performance could easily lead it away from its economic parent. If on the one side, as has just been implied, entrepreneurial studies offer a natural and perhaps unusually suitable point at which to bring to bear on economics important historical research and questions from the other social sciences, it is also a line of inquiry that needs contact with the central concerns of economic theory.

The connecting bridges are obviously not always easy to build and probably will not be continuously maintained; nor need

historical research be confined to any such single objective. But only thus can entrepreneurial history make its important contribution to the burgeoning field of growth theory, which stands sorely in need of both its historical reality and its concern with the behavior of concrete economic actors in specific situations. Similarly within the fields of traditional economics, only thus can entrepreneurial history make its contribution to the understanding of the behavior of the firm in different stages and settings; or for the longer run, of the characteristic responses of whole sectors of an economy to varying circumstances and opportunities, to changes in techniques, income levels, market organization, and the like. And only thus, in turn, can entrepreneurial studies find stabilizing perspectives in the more general frame of economic analysis. It need not reduce awareness of the specific or the creative in economic life to keep in the foreground the questions economists ask or the linkages through which economies move. To do so may help keep the evaluation of entrepreneurial factors in proper proportion.

## V

Nearly half a century has passed since lines of thought developing separately in England and on the Continent found in Schumpeter an innovator who opened wide an important and complex subject in economics and economic history. In so doing he gave a mighty push — perhaps an exaggerated, or at least historically distorted push — to recognizing the dynamic place of a function that had been neglected in economic analysis. It is likely to be a good deal longer time before we will have understood this area well enough to define with authority either the role of the function in varying economic circumstances or the sources of different patterns of organization and performance. To such understanding as may come, the kinds of inquiry discussed above should make their contribution. About them all one common statement can perhaps be made: only by extensive and intensive *comparative* studies, combined with careful local investigations, are we likely to come to a clearer grasp of the complexities involved.

In the meantime, in the decade of the Center's life from 1948–1958, the base for exploration has been broadened and lines of investigation are discernible that offer to both history and theory sufficient promise to be inviting and sufficient pitfalls to assure that it can remain a venturesome field for a considerable future.

## OVER THE COUNTER

LETTERS, RESEARCH NOTES, CRITICAL COMMENTS,  
AND INFORMAL CONTRIBUTIONS FROM READERS

¶ In this issue the *BUSINESS HISTORY REVIEW* inaugurates a new editorial feature. Like the financial mart from which it derives its name, OVER THE COUNTER is designed for the types of exchanges not handled elsewhere. The new feature has its origin in a demand among readers of business history for a place to compare ideas, voice comments on published articles and reviews, and publish research essays. Contributions are invited. The Editor and Advisory Board reserve the right to decide whether, on the basis of general interest, pertinence, and merit, such contributions will be published. OVER THE COUNTER will appear as often as the volume of contributions may dictate.

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### INDIGENOUS ROOTS OF SOCIAL RESPONSIBILITY?

CHARLES WILSON  
*Jesus College, Cambridge*

Mr. Morrell Heald's thoughtful article on *Management's Responsibility to Society*<sup>1</sup> made one wonder again whether historians have yet devised an adequate framework of reference for the so-called novel ideas of social accountability and the like within which "welfare capitalism" is nowadays supposed to work. He has done well to ask how far and in what ways the "new" capitalism differs from the old. And when I write "old" (this from Europe) I am thinking not only of 50 years ago but 200 years ago. The more the ideas of the fathers of the Industrial Revolution are studied, the more apparent it becomes that the best of them, at any rate, believed in industry as a social force capable of changing their contemporary world for the better. Such institutions as the Lunar Society witness to the strong philosophical urge that lay behind much of what was done in commerce and industry. Boulton, Wedgwood, and their friends, saw themselves as prophets and leaders of a new society — and this without any of the so-called democratic "pressures" that act upon the managers and public relations advisors of modern business. The tradition runs on through the model villages, the libraries, schools and foundations of early Victorian England, down to the enlightened capitalism of late Victorian days — the Levers, Cadburys, Prices and the rest. Of course, the difficulty the modern mind — especially the invariably unhistorical mind of the economist — has with them is that they believed, ferociously, in a doctrine which we nowadays rarely have the patience even to examine, let alone understand. This is the conviction, bred out of decayed bureaucracy by individualist philosophy, that social welfare could only be furthered by the efforts of self-interest and that (in the words of Pope)

"... true self love and social are the same."

<sup>1</sup> *Business History Review*, Vol. XXXI, No. 4 (Winter, 1957), pp. 375-384.

Few critics of the old capitalism are willing to recognize that its moral justification to itself was precisely *that*. It could not conceive of progress through any other agency than the private entrepreneur; and his welfare, his prosperity, therefore became identified with that of society. As late as 1920, Alfred Marshall in the *Principles* could still subscribe to the defense of the proposition that such men had earned their social keep, making "for the world a hundred times or more as much as they have earned for themselves." The reasons why the faith in their social efficacy crumbled away still await a full analysis. The point I wish to make is that their own reasoning was not, in its historical context, contemptible. As a somewhat under-informed outside observer of the North American scene, I have a suspicion that the rising tide of criticism of monopoly capitalism of the muckraker era owed at least as much to fears of political jiggery-pokery as it did to apprehensions of economic contraction.

I should not wish to deny that the internal development of large business, and external criticism of its actions, have both helped to make business managers sit up and take notice of the public and consider their own responsibility to that public. We should not, however, ignore the not unimportant number of *entrepreneurs* who waited for neither of these things to happen but reflected in their business conduct the ingrained habits of social responsibility and public service which were part of their irrational, instinctive heritage from earlier times. The student who enquires into the origins of welfare capitalism will find his researches taking him farther and farther back. And if his first instinct is to measure the growth, quantitatively as it were, of this sense of responsibility in terms of capital expenditure on it, his second instinct may be to wonder that in an age when capitalists were stimulated by none of the material incentives that often underlie modern welfare schemes, they should have done so much at a direct charge to their own pockets.

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### THREE NEW HISTORY JOURNALS

¶ The first issue of *Economy and History* was published last spring. This journal, published in English by the Institute of Economic History and the Economic History Association, University of Lund, Sweden, will appear annually. Editor—Oscar Bjurling. Subscription rate—Sw.Kr. 10 (\$2.00). Address communications to *Economy and History*, Institute of Economic History, St. Södergatan 3, Lund, Sweden. First issue articles include: "Price Developments in the Swedish Realm during the latter half of the 17th Century"; "The Purchase of Agricultural Land by the Timber Industry in Sweden from 1885 to 1906"; "Some Notes on Competition and Cooperation in Swedish Industry in the Eighteen Seventies and Eighteen Eighties"; "Swedish Agricultural Policy and Agricultural Production from 1930 to 1940"; and book reviews (three Swedish histories).

¶ In collaboration with the Business Archives Council, Liverpool University Press is proposing to publish a magazine entitled *Business History*. This new journal will be under the editorship of Professor F. E. Hyde and Assistant Editors Dr. S. B. Saul and Dr. J. R. Harris. *Business History* will publish articles of academic standing covering a wide range of business activities. Part of each issue will carry information on the work of the Business Archives Council, and there will be a book review section. Publication is scheduled on a twice-yearly basis, with a subscription rate of 30s in Great Britain and \$5.00 in the United States (postpaid). Address Professor F. E. Hyde, Department of Economics, 11



Abercromby Square, The University, Liverpool 7, England. Subscribers will be billed when the first issue is published.

¶ The Society for the History of Technology is planning a new quarterly entitled *Technology and Culture*, devoted to the history of technology. While publication plans have not been completed, the Society is already active and is accepting membership applications. Target date for publication is late 1959 or early 1960. Society dues are as follows:

Regular Membership	\$8.00
Charter Membership (available until January 1, 1960)	10.00
Sponsor Membership	50.00
Student Membership	5.00
Affiliate Membership	8.00
Associate Membership	100.00

Address Professor Melvin Kranzberg, Case Institute of Technology, Cleveland 6, Ohio.

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## A HISTORIAN'S REPLY

HERBERT HEATON

*Emeritus Professor of History  
at University of Minnesota*

Dear Mr. Editor:

I was shocked and dismayed to read in the Spring issue of your *Review* that "There is an ancient, intermittent, and inconclusive war between the economic theorists and the economic historians, in which, I fear, this review<sup>1</sup> will be a minor skirmish." Coming from Professor Boulding, as mild and peace-loving a scholar as ever slit a throat or a theory, it was indeed sad tidings to learn that the war is still being waged. I never thought it was much of a war outside Germany, and even there it petered out early in the present century. In the English-speaking world, W. J. Ashley was declaring as long ago as 1893<sup>2</sup>

It is surely time to cry a truce to controversy. . . . Now that an armistice can be signed on honorable terms, it were well to do so. . . . Let us try for the next twenty years to leave one another severely alone, and see what will become of it. If we have time, let us read one another's books. Perhaps we shall be converted; perhaps we shall get only a suggestion here and there; but if we cannot agree, let us be silent.

From the truce which soon came there gradually emerged such a condition of peaceful coexistence and cooperation that men like Edwin F. Gay and Wesley Mitchell could join hands in founding the National Bureau of Economic Research. True, there was a little gunplay at Cambridge (England) in 1922 when J. H. Clapham complained that the "economic boxes" cunningly fabricated and labelled by the "Great Analytics" (Marshall and Pigou) were all empty. Pigou replied by virtually conceding that they were; hoped that they could be filled some day; and waved, as an olive branch, the suggestion that economic historians and economists should "work together in combination and not waste

<sup>1</sup> Of Thomas C. Cochran's *The American Business System: A Historical Perspective, 1900-1955*. A second review of the book, by Professor J. K. Galbraith, completes the "Review Article." *Business History Review*, Vol. XXXII, No. 1 (Spring, 1958), pp. 116-121.

<sup>2</sup> W. J. Ashley's introductory lecture at Harvard, January, 1893, printed in his *Surveys, Historic and Economic* (1900), pp. 8-9.

time in quarrelling, perhaps on the basis of an imperfect understanding, with the deficiencies of one another's methods."<sup>3</sup> Though this suggestion was not taken too seriously, each group did at least go its own way and kept off the other's path, to the vast benefit of both disciplines at Cambridge as well as elsewhere.

It may be that the Boulding review is really just another bit of good-natured gunplay, or boxing, provoked by your choice of a couple of professors of economics to appraise Cochran's book. Even so, it is doubly provocative — to the author and to such interested onlookers as myself. I've no doubt that Cochran could, if he wished, write a modest but cogent rejoinder to the charges (p. 117) of "too many large and rather dubious generalizations," "too many simple errors," some "gross errors," and "innumerable statements and generalizations which are debatable but which are presented as straightforward fact." For example, he might confess he gave the wrong fraction when he said (p. 143) that "taxes were consuming a third of the meager national income," and that he should have stated which year he meant, though the context certainly suggests "in 1932-33," the dark twilight of the Old Deal and not "in 1933" as Boulding says he says. But he could question Boulding's deduction that figures in the Economic Report of the President for January, 1957, "would suggest" that the total "tax collections cannot have been more than \$3 or \$4 billion — say 10 per cent of national income." There is no need to deduce or hunt for suggestions, since total tax figures are easily available and run around \$8 billion — or a fifth of the national income during that period. If Cochran's fraction is too high, Boulding's is much too low.

Let me leave Cochran to fight back for himself, or sit on the penitent's bench — or do a bit of both — while the rest of us consider Boulding's enumeration of the "fundamental" complaints "of the theorist against the historian." The first of these is "the absence not merely of quantitative data but of what one might call the quantitative 'sense.'" While this complaint is made specifically of Cochran's book, the following lines, especially the first sentence of the next paragraph, seem to put us all in the dock. To develop this "sense" we must be converted to the belief that "what might be called the 'great series' — Gross National Product, its components and distribution, together with the price levels — surely forms the clothes-line on which virtually all the economic history of [the twentieth century] must be hung," or, changing the metaphor, must be used as "the skeleton of history," without which "the flesh is as slippery and amorphous as an oyster."

The complaint leaves me almost as cold (or maybe as hot under the collar) as an economist would feel if a historian accused him of neglecting mathematics. It shows complete unawareness of the quest for quantities which has characterized research in economic history during at least the last three or four decades. Cochran manages to use the clothes-line and hang things thereon across at least eleven of his 205 pages. Recent American texts by Soule and Krooss take the national income and the change in the level of living as their guide-ropes. There, as in the wider field and longer time-span we have all taken heed of Clapham's famous remark that

the methodological distinctiveness of economic history hinges primarily on its marked quantitative interests. It is, or should be, the most exact branch of history. . . . Every economic historian [should acquire] the habit of asking in relation to any institution, policy, group, or movement the questions: how large? how long? how often? how representative?

<sup>3</sup> The encounter will be found in the *Economic Journal*, Vol. 32 (1922), pp. 305-314, 458-465, and 560-563.

This approach has helped to revolutionize our knowledge and interpretations of many topics and periods, and the drive for measurements continues unabated. Yet we know so well the difficulties in testing any kind of historical evidence and in getting accurate figures, even for recent decades, that we cannot avoid being skeptical about the more ambitious estimates of G.N.P., National Income, distribution "by sector of origin," or Colin Clark's latest masterpiece, an estimate of the value of unpaid housework in Britain. Some historians may have become intoxicated by the exuberance of their own verbosity; but that is a venial sin compared with being stupefied with statisticosity.

The second "fundamental complaint" against us is our use of "homebrewed" "implicit theory" and our "somewhat negative attitude towards existing explicit theory." Cochran is trounced on both counts by Boulding; but by way of compensation Galbraith says "His task requires a good deal of economic analysis, and this he handles skillfully and with a skeptical view of the stereotypes." With the experts in economics at such loggerheads, it might be wise for Cochran and his accomplices to slip silently away. Unfortunately for that tactic, Boulding's words rang a bell by recalling two discussions at Economic History Association meetings on the relations between economic theory and history.

At the first meeting, in 1943, one speaker asserted:

Operating theories are more or less concealed in the structure of all historical writing. . . . Since theory must be either explicit or implicit, it is better for scholarly purposes that it should be explicit. Carefully formulated theory restricts unconscious bias, gives meaning to otherwise formless data, and is more likely to reveal unexpected relationships.

Hoping that American historians might be enabled to talk more sensibly and freshly about the threadbare story of competition and monopoly if they knew the new theoretical developments on the subject, the speaker then gave a brilliant account of the emergence and character of the theory of imperfect competition.

Six years later the same speaker regretfully reported why he found economic historians still reluctant to employ the more abstract and complicated conceptions of theory. Some of them, in part because of the contributions of sociologists and anthropologists, had become increasingly aware of the infinity of variables in the real world, and of the importance of cultural influences that cannot be measured. To them only a small part of economic theory was in accord with reality. Even those who were most sympathetic towards economics found great difficulty in testing empirically those pictures of reality which the economist accepted as substantially accurate because they emerged logically from his assumptions and propositions.

The speaker, by the way, on both occasions was T. C. Cochran. His remarks, like those of other participants in the discussions, revealed an eagerness among Cochran's generation—the post-Marshall-Taussig crop—to know, and if possible to use, what was coming from the frontiers of economic theory and statistics; and Galbraith's judgment confirmed my own amateurish impression that Cochran had used fairly well whatever was usable and relevant in the figures and the explicit theory. But since Boulding admits that "explicit wage theory is in a deplorable state," it scarcely seems fair to attack Cochran for relying on a bit of "implicit theory"—"which would take almost a book to unravel"—to account for the sharp wartime increase in real wages and consequently for "both higher consumption and production in the post-war years." Cochran's explanation—"shortage of labor and a government friendly to col-

lective bargaining" — is probably less a bit of theory of any kind than a bit of personal recollection of the actual situation and developments of those war years. Boulding's questions and comments on the matter could probably be answered by anyone with a good memory of the 'forties; and some of his questions are so loaded as to get the reader off the line of argument.

So much for the complaints. And now for the verdict. "We still await, alas, an economic history which shall be constructed around a good quantitative and theoretical skeleton," or in other words will be born of "a general theory" in the author's mind. Without stopping to question the range of reading on which this judgment rests, let me hasten to cry "O.K., you economists. Give us the skeleton and we will finish the job. Produce for us a general theory — parenthetically, of what? — that is not too general to have any contact with mundane reality and is not couched in such jargon as to sound too much like Jabberwocky, and we will be as grateful as we will be industrious."

Is there any hope of that? Nine years ago Professor Schlichter surveyed "The State of Economics."<sup>4</sup> On the credit side he listed the "impressive progress" made in the last several decades in many directions. On the debit side he placed

**the great shortcoming of economics, its failure to take the last step in the production of knowledge — to test hypotheses and thereby to develop propositions which have some generality and which have been found to be consistent with more or less substantial bodies of evidence. [Only when that step has been taken] do economists break out of the world of speculation and add to the knowledge of economic behavior.**

He regretted that the step had rarely been taken; listed reasons for this reluctance or inability; rejoiced to note that the obstacles limiting the development of tested propositions had steadily become less formidable in recent years; outlined instances where the task was likely to be particularly successful in yielding general propositions; and expressed the expectation that the good work would proceed at increasing tempo during the next decade or two.

In the hope of bringing myself up to date on this "good work," I've spent the last two weeks going through recent issues of the *Economic Journal*. The title of the first article in last June's issue looked promising — "Capital Accumulation and the Maintenance of Full Employment." But the first paragraph read as follows:

**The subject of this article is a theoretical model of economic growth whose working is intended to throw light on some aspects only of the mechanism by which, when employment is already full, the supply of savings may be utilized for increasing productivity in such a way as to allow employment to remain full.**

The article ran to 34 pages, replete with algebra, nine graphs, a list of "some important influences which will be deliberately assumed away in the interests of brevity, clarity, and focus," and three appendixes, all of them crying aloud for surgery. The second article got by with the aid of only two "figures," a tiny dash of algebra, and five countries called, in alphabetical order, A, B, C, D, and E; and the author admitted that the particular "case" he had been discussing "is a *curiosum* . . . and should be presented as such, rather than as a fundamental principle or as an analysis of any probable development" — in other words, just a bit of nice clean fun. The third article began: "The purpose of this article is to present some results of applying a dynamic model of consumers' behavior." The fourth was about gold, and as I still remember

<sup>4</sup> Published in *Items* (Social Science Research Council, Sept., 1949), pp. 25-28.

what gold looks like, I could understand bits of that study. Next came something about business forecasting techniques, and I was thrilled to learn in its final sentence that "We cannot get away from the fact that while peaks are always led by slowdowns, slowdowns do not always lead to a business-cycle peak" — which is really quite cute and deceptive behavior.

Other issues of the *Journal* ran on the same line. For example, "A Model of Economic Growth," 35 pp., 8 figs., and terrific algebra; "The Micro-foundations of Aggregate Demand and Supply," 16 pp., 17 figs., 14 enormous equations; and "Stabilization Policy and the Time-form of Lagged Responses," 13 pp., 8 figs., a multiplier model with error correction, an inventory model with ditto, and evidence obtained by use of "electronic simulators, by means of which the time responses of quite complex systems with a variety of lag-forms can be found very quickly." I liked the frank "main conclusion that must be drawn from this investigation," i.e., that

much more research is needed in the general field of economic regulation. To throw light on the practical problems involved in regulating complex economic systems it is necessary to study the properties of more realistic models in which non-linear relationships, growth trends, multiple objectives and multiple disturbances are incorporated. . . . It is equally important that improved methods should be developed for estimating quantitatively the magnitudes and time-forms of economic relationships in order that the range of permissible hypotheses may be restricted more closely than is at present possible.

Other articles taught me that already there are Keynesians, post-Keynesians, and neo-Keynesians, and at least three widely held views of what the Master really meant on such things as the dynamics of interest determination.

All this has been very confusing to me, an eager though elderly pupil anxious to catch up on my neglected homework. And my effort to understand the meaning of terms is weakened when Professor Machlup<sup>5</sup> concedes that "A term which has so many meanings that we never know what its users are talking about should be either dropped from the vocabulary of the scholar or 'purified' of confusing connotations"; spends 23 pages trying to subject "equilibrium" and "disequilibrium" to a "thorough cleaning job"; then seems to confess that it can't be done and that, if it could, the 99.44 per cent pure product would not be of much use.

It looks then as if economic historians are in for a long struggle, as well as a long wait, before they get their general theory economic skeleton. To make matters worse, some of them are getting the notion — or are being told — that they need to be aware of what the sociologists, anthropologists, psychologists, geographers, political scientists, and even philosophers are saying — to become, in a simple word, interdisciplinariological. Of course they do, and might try to do something about it if there were 168 hours in a day instead of in a week. And all the other disciplinarians should admit the same need. The most refreshing item I ran across in my recent burst of homework was a frank statement by Professor Benjamin Higgins<sup>6</sup>, on the virtues and defects of the younger group of American economists and of the training they have received. It winds up as follows:

<sup>5</sup> "Equilibrium and Disequilibrium: Misplaced Concreteness and Disguised Politics," in *Economic Journal* (March, 1958), pp. 1-24.

<sup>6</sup> *Canadian Journal of Economic and Political Science* (Aug., 1957), p. 440.

Let us not drop mathematics, statistics, and econometrics; but let us take more care to see to it that professional economists get some training at the graduate level in such related fields as sociology, anthropology, psychology, political science, history, and philosophy.

To which I would add ditto for graduate students and teachers in the rest of the social sciences. As the old lady said, when the vicar urged her to forgive her maidservant's sad lapse into sin and reminded her that life was made up of sinning and forgiving, "Why should I do all the forgiving?" Why should historians alone be expected to know what the other folk are saying? But if the others turn some of their attention to history, let them beware of Keynes' propensity to read into history what they wish to find there; to find throughout history those chronic tendencies which worry their own day; or to allot uncritically to past centuries modern problems and Keynesian or Marxian or Schumpeterian or any other brand of theories.<sup>7</sup>

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## A HISTORY OF BUSINESS IN THE UNITED STATES

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¶ The following comments, modified only slightly for publication here, were prepared by Emeritus Professor Arthur H. Cole as a basis for discussion by a committee of historians brought together by Professor Thomas H. Cochran to investigate the feasibility of undertaking a multi-volume history of business. The Cole report, reproduced with the kind consent of Professor Cochran, is of particular interest, value and pertinence because of the number of plans now under way in various places to produce a history of American business. Views about how such a history should be written vary widely. The purpose and hope underlying publication of this one set of suggestions is that further discussion will be stimulated and basic problems explored still further.

If a satisfactory set of volumes is to be secured dealing with the history of American business, at least four elements must be agreed upon both by the supervising committee and by the authors of the individual volumes, namely:

A definition of the nature of the inquiry, with a collateral determination of the areas to be excluded.

A list of the topics to be handled in each volume, although not necessarily in the same order or with the same relative emphasis.

A determination of the best time-periods for the several volumes (or of the several themes, if it is decided to treat the evolution longitudinally by subject rather than horizontally by time-periods).

Lastly, an agreement on the types of material which the several authors would be expected to cover, with possibly a specification of the original research activities in which they would be expected to engage.

<sup>7</sup> See J. M. Keynes, *General Theory*, Ch. 23, for his treatment of Mercantilism, based on reading Heckscher's *Mercantilism* (1935). Then read Heckscher's criticism of Keynes' treatment in the revised edition of Heckscher's book (1956).

## DEFINITION OF THE AREA

The field of inquiry may be defined as the changing character of business processes — form, speed, intellectual content, and so forth — stemming from advances in science, education, other phases of human experience, or from interaction among business institutions themselves, by consequence of which the volume of economic goods and services is enhanced or made more fully to suit consumer and government needs without changes (or at least independent of changes) in the economic factors. We should be concerned with the intellectual quality, training, and social conditioning of the leaders of enterprises (and perhaps of those who supervise sections of enterprises when the latter become sizable, and possibly even the working force insofar as it receives special training from the enterprise); the information on the basis of which executive decisions are made and, in general, the enterprise is carried on; the innovations in enterprise form and technique by means of which individual concerns gain temporary differential advantage and through which, by the force of imitation — usually enforced by competition — the productivity of economic units is increased; innovation in the form of the establishment of new varieties of enterprise; the contributions of law, government, and science to the alteration of business techniques and practices; and the development of a network of interrelated, mutually supplementing and supporting institutions, from advertising agencies to schools of business. In another connection I have ventured to speak of the important aspects of business as “transcendental” — meaning really nothing much but invisible.<sup>1</sup> I had in mind that the economic historian properly concerns himself with supplies of capital and labor, richness of natural resources, and the like, but the historian of business should put his attention primarily upon the contents of men’s minds; the literature of the practitioner; the interrelations among business units, with corresponding expectations of performance; the business instruments; and, perhaps most wide-ranging, the processes by which talent is attracted into or repelled from the field of business.

I would go so far as to suggest that business history is, or should be, essentially a part of intellectual history, concerned with the origin and flow of information with the consequences thereof, while economic history is non-intellectual in the sense that it largely limits itself to studying processes and counting results. Business history is, and should be, close to sociological history — concerned with the interactions of men and institutions, and with cultural themes.

The specific areas upon which the historian of business would need to draw have been suggested in the foregoing paragraphs: social history, insofar as the evolution of the society conditioned the status which the businessman might hope to achieve; intellectual history, insofar as the evolution of business benefited from changes in the course of human thought, including that of natural science; legal history, for the opportunities and restraints provided by law to business forms and actions; political action — at least governmental history — especially as political advantage or disadvantage seemed to involve the relations of politicians with businessmen, and as governmental services facilitated the performance of businessmen; and perhaps even literary history, insofar as the attitudes taken by novelists and poets helped to form a favorable or unfavorable public opinion about the conduct or status of businessmen. Sometimes these areas are involved, as it were, in a negative way, that is, by the absence of force or action. For example, it is probably of some significance that the patent laws were never extended to cover business forms such as cost-accounting systems

<sup>1</sup> See Arthur H. Cole, “Transcendental Aspects of Business,” *Harvard Business Review*, Vol. 36, No. 5 (Sept.-Oct., 1958), pp. 51-60.



or modes of analyzing the markets for goods, and that copyright laws never allowed the copyright of forms of agreements and other important business instruments.

The areas that should be neglected or given little attention have also become obvious: most of economic history, except as background; most of technological history; and the more distant areas such as medical, musical, and religious history.

#### THE APPROPRIATE TOPICS

It will be recognized that the several books must deal with a socio-economy changing from one located along the Atlantic coast and possessed of a relatively simple economic structure to a highly diversified one extending from coast to coast and compounded in fact of many subordinate, quasi-detached socio-economies. Accordingly, while the author dealing with the earliest period might hope to cover conditions from New Hampshire to Georgia, those responsible for the later volumes must resort to some type of selection of materials, concentrating on certain regions or certain industries. Yet there should be comparability among the several volumes, avoiding a plan that called for one book dealing wholly with foreign trade, one with railroads, one with the textile industry.

Now the basic question in business history seems to me to be: given the geographical location of the region or whole country under discussion, and given a specific (but changing) complement of intellectual, technological, social, and economic resources, how well did the business system perform to provide the relevant community with the goods and services that it desired, as well as a rising level of such goods and services if the community wished that result enough to pay the necessary price? (It should be recognized, of course, that the business world is not passive; it interacts with the other parts of the socio-economy in any number of ways: from influencing public opinion by propaganda or individual behavior to devising a savings institution or instrument by the use of which the supply of capital is in effect increased.)

As a third preliminary statement, I would remark that the "network" of business institutions above-mentioned may be broken down, at least for heuristic purposes, into primary, ancillary, and service groups. Thus in the manufacture of shoes, the factories themselves (or the companies operating them) would constitute the "primary" group. The "ancillary" group would be made up of the suppliers of raw materials, the makers of shoe-manufacturing machinery, the repairers of that machinery, the disposers of waste products. The "service" aggregation would contain the marketing, financing, transporting, and advice-giving institutions.

Now I would propose that, for each time-period selected, the author examine in detail the dominant, or one of the leading business activities, and four or five other, less important lines of business; and that, as far as possible, the industries remain the same through the several periods, although the relative, changing importance among the five or six activities should be allowed to manifest itself.

Specifically, I would nominate for the earliest period: goods wholesaling, chiefly foreign; iron working; and lumbering and allied activities.

For the second period I would nominate: cotton textile manufacturing, goods wholesaling, lumbering, iron working, and commercial shipping.

For the third period: railroad operation, textile manufacture, iron and steel manufacture, lumbering, goods wholesaling, and commercial shipping.

For a late period: automobile manufacture, railroad operation, large-scale retailing, lumbering, textile manufacture, iron and steel manufacture.

Relative to each of these "industries," the author should address himself to the questions:

How were the operators of the enterprises able to learn their proper functions and transmit their skills to successors? What current data came to these men, from what sources, on the basis of which they could make current decisions?

What ancillary and service institutions were available to these operators to take burdens from their shoulders and perform the specific functions better? Did these institutions improve in their performance over the specific time-period?

What changes occurred in the administrative, producing, financing, marketing, control, and other functions performed in the enterprises?

What innovations are apparent, and whence did they derive?

What was the apparent time-horizon of the operators? How far did they apparently plan ahead in the conduct of contemporary activities and for the longevity of the firm as an operating unit?

What were the sources of the sanctions that influenced or controlled the actions of these operators toward the several groups of other human beings with which they had relations: stockholders, employees, customers, members of their communities?

What instrumentalities held together the "network" above-mentioned as far as these specific lines of business were concerned? How did these instrumentalities change through the time-period?

What was the apparent pace of activity in the enterprise? What the sources of tensions?

I realize that I am asking a great deal of the authors of the individual volumes. However, I believe a history that dealt only with superficial phenomena — so many commission merchants in New York at such and such a time, the first department store, the first chain stores, and so forth — not to be worth doing. There must be some central thread — an important question — on which to hang the data. I see no thread or question other than the changing effectiveness of the business system or of the businessmen in specified lines of activity. If necessary I would alter the form of research and publication to permit a smaller number of authors to probe more deeply. On this last point, more below.

#### THE TIME-PERIODS (OR OTHER BREAKDOWNS)

Partly because of the paucity of available good authors, partly because we want to show changes of magnitude, not detail, and partly because the more one cuts up the element of time the more he cuts across lines of evolution, I would suggest only three periods: the decades up to about 1825; the years between about 1820 and 1880; and the period since 1880.

Alternatively, I would suggest the splitting of the history another way — by industry. It might be easier to secure competent authors in this way, and the data on business change will be found chiefly to come along such lines, not by chronological eras. Also we have few good industrial histories — using "industrial" in the broad sense.

#### THE SOURCES OF DATA

Whether the time-period scheme or some other be adopted, the authors cannot, I think, be held responsible for more than Ph.D. theses, books, maga-

zine articles, and the trade journals. Probably not all the last can be covered. Author compensation, however, must be sufficiently generous so that we get something more than a digest of scattered known facts. It is important to set a pattern of *good* business history writing, even if the world has to wait another generation for the details to be filled in. I am inclined to argue for fewer volumes, more money per volume, and more interpretation by higher grade authors.

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#### RESEARCH NOTE:

### RISK, ENTREPRENEURIAL CAUTION, AND BUSINESS HISTORY<sup>1</sup>

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Risk-bearing has often been called the essence of business enterprise; and if this is true, it should also be the essence of business history. In 1950 Professor Henrietta M. Larson pointed out the lack of a history of risk in business, "The economic historian has not been particularly interested in the subject and the business historian has not gone far enough to deal with it fully."<sup>2</sup> As the statement implies, a full treatment of business risks is rather involved. The losers as a result of an unfortunate business decision might be a firm's owners and managers, but they could also be its creditors, workers, suppliers, customers, and society at large. There are risks when newcomers attempt conventional actions in a fairly stable environment. Other risks occur when experienced men take conventional actions in a rapidly changing environment. Finally, it may be risky to attempt something new in either kind of environment. The novelty, moreover, could involve the firm's relation to its suppliers, workers, creditors, customers, and government regulators; or it could involve the physical processing of materials into a finished product.

If a history of business risk is to be limited in scope, a good reason for concentrating on the riskiness of innovation for owners and managers is the key place such risks occupy in contemporary economic theory. For decades economists have tried to explain the function of pure profits, meaning profit in excess of capital charges and the wages of management. In the nineteenth century pure profits were viewed as necessary for personal incentives and as a means of capital formation. But sociologists pointed out that personal expenditures were not the only source of prestige and self-esteem for businessmen. Economists recognized that private saving was not the only means of raising capital. Since pure profit could not find its rationale in the need for incentives or savings, another explanation had to be found. Around 1920 Professor A. C. Pigou developed the idea of uncertainty-bearing as a fourth factor of production.<sup>3</sup> Professor Frank Knight soon agreed that the bearing of risks and un-

<sup>1</sup> Since 1954 the writer has been engaged in a study of *Risk and Technological Innovation: American Manufacturing Methods During the Nineteenth Century*, to be published by Cornell University Press. This project has been supported by a fellowship of the Social Science Research Council and by released time and research grants from Michigan State University. He wishes to thank Professor Thomas Mayer for his helpful comments on this research note.

<sup>2</sup> Henrietta M. Larson, *Guide to Business History* (Cambridge, 1950), p. 867.

<sup>3</sup> A. C. Pigou, *The Economics of Welfare* (London, 1920), pp. 915-924.

certainities was the unique function of entrepreneurs and worked out a more complete explanation of the relation of risk and innovation to profit.<sup>4</sup>

But in static economics a unique theory of profits as a guide to economic decisions is superfluous. Given the demand for products, the supply conditions of the factors of production, and a price system, the allocation of resources and the distribution of income are already fully explained. An additional theory which makes profits a special recompense for risks and a guide to economic decisions is therefore likely to run into inconsistencies.<sup>5</sup> Profit theory, therefore, has come to emphasize, not the riskiness of enterprise in general, but the riskiness of innovation. According to Professor Burton Keirstead, who, following Joseph A. Schumpeter, has developed this theory most rigorously, failure to compensate for the risks of innovation will make entrepreneurs prefer to use excess funds in advertising or for investment in government securities, and the rate of technological and other progress will decline.<sup>6</sup>

To appraise the importance of risks for a particular kind of innovation during a period, the historian must ask two questions: 1. What risks did innovating entrepreneurs think they were taking? 2. What factors actually threatened the success of an undertaking? But this approach makes risk appear as something external to the innovator. He responds to a chance of success determined by external factors. If there is uncertainty with respect to technological innovation, for example, it may involve the functioning of machinery in terms of the changing level of production skills and resources of the economy. Or the crucial factors may be social, the inertia, prejudice, and active hostility that an innovation might confront. An examination of all these factors and how they appear to innovators is necessary,<sup>7</sup> but it will not give a complete account of the riskiness of innovation.

One additional variable must be studied: the innovator himself. The innovator may take himself for granted, but to the historian he is one of the key variables. Predictability and chance of loss are the essence of risk, and the historian cannot consider them wholly apart from the innovator's personal qualities and methods. Unlike a man speculating on real estate or gambling on a horse race, the innovator plays a large part in determining his own chance of success. He decides precisely how fast the venture will proceed, how much will be spent on experiments and consultation, and under what circumstances plans must be changed. He can choose to be cautious or bold. Whenever caution leads to knowledge about strategic factors, it can lower risks because it brings actions into closer accord with the material, psychological, and organizational requirements of a situation. Caution may at times lead to partial knowledge which, wrongly interpreted, leads to inappropriate decisions. In general, however, increases in knowledge mean decreases in the chance of loss.

In appraising the caution or boldness with which an innovation was introduced, the historian must be clear about the key persons involved. Who specifically was cautious or bold? To what extent was a person *the* innovator? In the case of technological change, the innovator might have been the owner of an enterprise or the manager for several owners. These might have hired a technician to design a product or process with specific characteristics, if possible. Or, the initiative might have come from mechanics or plant superintendents who could persuade owners and managers to back an idea. At times responsi-

<sup>4</sup> Frank Knight, *Risk, Uncertainty, and Profit* (Boston and New York, 1921).

<sup>5</sup> Cf. J. F. Weston, "The Profit Concept and Theory: A Restatement," *Journal of Political Economy*, Vol. LXII (April, 1954), p. 158.

<sup>6</sup> Burton Keirstead, *An Essay in the Theory of Profits and Income Distribution* (Oxford, 1953), pp. 104-108. Keirstead acknowledges a debt to Joseph A. Schumpeter who considered this problem as an integral part of his more general theories. See, for example, his *Theory of Economic Development*, trans. R. Opie (Cambridge, 1934).

<sup>7</sup> An appraisal of these factors, called "production risks, customer risks, interference risks, and timing risks," is the principal subject of the writer's study, mentioned in footnote 1.

bility might have been centered in a single person, an "engineer-entrepreneur" who, with scientific training and business experience, solved both commercial and technical problems.<sup>8</sup>

But in appraising the role of specific individuals, the historian is usually confronted by contradictory statements. The appropriateness of a particular step was viewed differently by technicians, managers, creditors, and competitors; by insiders and outsiders; and even by the same person at the time of innovation and years later in memoirs. In the nineteenth century, it was fashionable for successful men to hold an image of their younger selves as confronting hardships, doubts, disappointments, almost insuperable difficulties, and menacing opponents who denounced their "visionary schemes." Of course, innovation required effort and persistence. But these qualities are different from a venture-some readiness to gamble against great odds. John Fritz, the originator of several outstanding innovations in iron and steelmaking, described various "alarming and disheartening" difficulties in his autobiography. But he did not have to be reckless to overcome these difficulties. Before introducing the three-high rolling mill at the Cambria Iron Works, Fritz had stated, "... it is my rule not to make a move in any new thing until I have thought it over, not only as a whole, but also in all of its details, and I assure you this is no exception, and I now feel that success is assured." And, as he expected, the first three-high mill rolled perfect rails.<sup>9</sup>

Nineteenth-century observers also preferred to attribute failures to moral flaws rather than to mere ignorance. If someone failed, no matter how cautious he might have been in his ignorance, he had to expect the label "reckless." William Butcher failed in attempting the open hearth process in 1870-1871. If he had used a chemist, he might have succeeded, but without one he could not be called "reckless" according to the standards of his time since the use of chemists at iron works was not yet a normal procedure. Nevertheless, the adjective was applied.<sup>10</sup> In the 1880's Henry W. Oliver did rely on a chemist in backing Clapp Griffiths converters. Even though he could not have anticipated the recession of 1883 any more than other businessmen, his failure was attributed to reckless innovation.<sup>11</sup> Later Clapp Griffiths converters were commercially successful.

In determining whether an innovation was introduced cautiously or boldly, a historian must depend less on what people said and more on what innovators did. If he concludes that a particular innovator was cautious, the historian does not mean that the man was so regarded by all his contemporaries. The innovator may even have lost money promoting some inventions. Caution was shown unmistakably only when men proceeded with an innovation as experimentally and painstakingly as possible, in order to determine its technical and commercial feasibility.

When introducing new manufacturing methods in America before 1900, investors applied cautious procedures more to original American ideas than to the adoption of processes developed in Europe. An obvious success abroad in cotton or woolen factory spinning and weaving, coke smelting, crucible

<sup>8</sup> Cf. Harold C. Passer, *The Electrical Manufacturers, 1875-1900* (Cambridge, 1953), pp. 1, 66-67, 180-181, 356-360; John B. Rae, "The Engineer-Entrepreneur in the American Automobile Industry," *Explorations in Entrepreneurial History*, Vol. VIII (Oct., 1955), p. 1; Fritz Redlich, *History of American Business Leaders* (Ann Arbor, Michigan, 1940), pp. 14, 101; Thorstein Veblen, *Absentee Ownership and Business Enterprise in Recent Times, the Case of America* (New York, 1923), p. 102.

<sup>9</sup> John Fritz, *The Autobiography of John Fritz* (New York, 1912), pp. 113-114, 158; B. F. Fackenthal, "John Fritz, the Ironmaster," *The Pennsylvania German Society*, Vol. XXXIV (Oct., 1923), pp. 95-112.

<sup>10</sup> Richard T. Nalle, *Midvale - and Its Pioneers* (New York, 1953), p. 11.

<sup>11</sup> Minutes of the Carnegie Steel Company quoted in Burton J. Hendrick, *The Life of Andrew Carnegie* (2 vols.; Garden City, New York, 1932), Vol. II, p. 13; Henry Oliver Evans, *Iron Pioneer: Henry W. Oliver, 1840-1904* (New York, 1942), pp. 100-104.

refining, or open hearth steelmaking often led manufacturers to suspend their customary preference for the experimental, tentative exploration of new ideas. As might be expected, the result was a fairly high incidence of failure. Many investors in American textile mills during the 1780's had not determined whether the immigrant mechanics could reproduce English machinery and if this machinery could turn out yarn and cloth suitable for the American market. Perhaps there was no way of knowing, but the large scale of some of the failures suggests that to the would-be innovators any unpredictable factors were worth a gamble. In a similar way, before scientific metallurgy came of age during the 1870's, metallurgical innovators had to gamble on the suitability of local ores and fuels for use in industrial processes developed elsewhere. Frequently the result was failure.

The cautious step-by-step approach was, therefore, more typical of attempts to introduce original American manufacturing methods. The funds appropriated for any single step were in rough proportion to the chance of success at that stage, and so the typical innovation could never be described as a bold long-shot gamble. If all the money eventually spent had been committed irrevocably at the beginning, many innovations might indeed have been bold risks. But such commitments were seldom necessary and, given the prevailing attitude of manufacturers toward novel production methods, seldom undertaken.

The evidence behind these generalizations can be found in many places. There was the way Eli Whitney carefully related the expense of new musket-making equipment to the probable volume of orders over twenty years; the way he charged the War Department "insurance against all risks, with the addition of [a] further percentage for wear and decay," which was itself an innovation; and his refusal to invest in some novel machines without the certainty of having a monopoly of their use.<sup>12</sup> There was the way later machine tool innovations developed by a firm were introduced by subsidiaries to minimize risks. There was Thomas Edison and the years he spent canvassing gas light users, testing detailed models, and checking for leakages before placing the Pearl Street central power station in operation.<sup>13</sup> Similarly, George Westinghouse had his alternating current system tested at laboratories and in three- and four-mile transmission systems before attempting his first large installation at Buffalo.<sup>14</sup> Frank Julian Sprague, who developed the first large industrial electric motors, did not invest in either plant or sales organization until after his motors, manufactured by the Edison Machine Works, had definite commercial acceptance.<sup>15</sup> When George Draper and Sons decided to develop an automatic bobbin-changing loom, they began with an exhaustive investigation of all previous attempts, placed small sums at the disposal of their technicians, and tested subsidiary devices for months before going from one step to another.<sup>16</sup>

The cautious attitude toward innovation is particularly evident in the case of Frederick W. Taylor, "the father of scientific management," who is also considered the outstanding inventor of machine tools in the last two decades of the nineteenth century. Taylor developed a revolutionary steam hammer,

<sup>12</sup> Memorandum to War Department, June 29, 1812, and letter to Superintendent Roswell Lee of the Springfield Armory, Jan. 3, 1818, quoted by Jeanette Mirsky and Allan Nevins, *The World of Eli Whitney* (New York, 1952), pp. 244-245, 269, 273.

<sup>13</sup> Passer, *op. cit.*, pp. 90-91, 186-187; Francis Jehl, *Menlo Park Reminiscences* (3 vols.; Dearborn: Edison Institute, 1937-1941), Vol. II, p. 880.

<sup>14</sup> Passer, *op. cit.*, pp. 137-138.

<sup>15</sup> Passer, *op. cit.*, pp. 238-239.

<sup>16</sup> George Otis Draper, *Labor-Saving Looms* (3rd ed.; Hopedale, Mass.: The Draper Company, 1907); William F. Draper, "Continued Development of the Northrop Loom," *Proceedings of the New England Cotton Manufacturers Association*, Vol. LXXIV (1903), p. 159.

automatic grinding machines, false tables, chucks, forging and tool-feeding mechanisms, boring and turning mills, and above all, he was the discoverer of high-speed tool steel and the inventor of high-speed machine tools. Yet, painstaking care, rather than impatient boldness, was characteristic of Taylor. As he himself said in a lecture to engineering students,<sup>17</sup>

... legitimate invention should be always preceded by a complete study of the field to see what other people have already done. Then some one or more defects should be clearly recognized and analyzed, and then it is entirely legitimate for the engineer to use his ingenuity and his inventive faculty in remedying these defects, and in adding his remedy to the existing elements of the machine or the process which have already been found to work well. Any other invention than this should be looked upon as illegitimate, since it is almost sure to waste the money of your employer, as well as your own, and to result in partial, if not complete disaster. Throughout the manufacturing world there exists a proper and legitimate suspicion and dislike for the man who is forever coming forward with new and radical improvements.

But in spite of his reputation, his record of successful inventions, and his painstaking procedures, Taylor moved from one firm to another because managers would not authorize particular experiments. At the Midvale Steel Company, President Charles J. Harrah would not allow Taylor to experiment with tungsten steel. Nevertheless, it was said of Harrah, that "To his courage and willingness to take what appeared to be great risks, the later success of the company is largely due."<sup>18</sup> Thus even Harrah, a man who at that time had a reputation for taking risks, was not overly sanguine. Taylor moved on to Cramp's Shipyards and discovered that with tungsten steel the speed of metal cutting tools could be increased from 40 to 90 per cent. After Cramp's decided to dispense with Taylor's services, he moved on to the Bethlehem Steel Company, where he developed the high-speed tools that were considered the outstanding development in metal-working machinery at the Paris World's Fair of 1900.<sup>19</sup>

In his private notebook Taylor wrote:<sup>20</sup>

The greatest difficulty in commercial life is to get the opportunity to successfully carry out the experiment; frequently more ingenuity is required in providing the opportunity than in making the experiment itself. Special ingenuity is required to see how experiment can be made profitable to employer in comparatively short time. Necessity in many cases for beginning at the wrong end of the experiment to furnish a convincing object lesson to your employer.

To sum up: As Professor Larson has said, general business historians have not discussed risk sufficiently. They have not fully explored the available evidence of the caution with which American businessmen introduced untried ideas. In the meantime, others have continued to propagate romantic misconceptions.

<sup>17</sup> Quoted in Frank Barkley Copley, *Frederick W. Taylor, Father of Scientific Management* (2 vols.; New York, 1923), Vol. I, p. 195.

<sup>18</sup> Nalle, *op. cit.*, p. 16.

<sup>19</sup> Frederick W. Taylor, *On the Art of Cutting Metals* (New York: American Society of Mechanical Engineers, 1907), pp. 219-221. Berthold Buxbaum, "Der amerikanische Werkzeugmaschinen- und Werkzeugbau im 18. und 19. Jahrhundert," *Beiträge zur Geschichte Der Technik und Industrie*, Vol. XI (1921), pp. 117-143.

<sup>20</sup> Quoted by Copley, *op. cit.*, Vol. I, p. 247.



## BOOK REVIEWS

*L. P. Alford and the Evolution of Modern Industrial Management.*

By William J. Jaffe. New York, New York University Press, 1957. Pp. xix + 366. \$5.00.

There is little question that a book about Leon P. Alford needed to be written, because for thirty years Alford was in the best position to view, digest, and describe the development of American management methods and programs. His original training and experience was in electrical and mechanical engineering, to which he added many years as editor, for varying periods, of *American Machinist*, *Industrial Management*, *Management Engineering*, and *Manufacturing Industries*. He was also an officer of the Ronald Press Company. Alford devoted a great deal of his time and energy to the A.S.M.E., and served on countless of its committees, and prepared or helped prepare countless reports. In short, Alford had direct contact with the ideas and leaders of American management in most of its phases, and was often called upon to collect, collate, and publish the ideas and principles which had been developed. It is by no means sheer coincidence, therefore, that Alford's name is connected with the A.S.M.E.'s decennial "Progress in Management" reports, or with *Management's Handbook* and the subsequent *Cost and Production Handbook*. While it is true that Alford did develop, and help develop, some original ideas and approaches to many aspects of industrial management, his greatest distinction was his ability to coordinate and organize managerial ideas and activities, resulting in the compilation of a remarkable amount of material.

In his preface, William J. Jaffe informs us that his book is based upon his doctoral dissertation, which was titled "Alfordian Analyses, Principles, and Laws"; it would have proved to be a more meaningful title for this book. In the transition to a book, the work has apparently suffered from an extremely poor editing job, or from its absence, for it is jumbled in some of its parts, and the author is permitted to make assertions which are unjustifiable. My first impression was that the book was a personal biography of Alford, but it is not quite that, perhaps because the Alford papers which were available were not comprehensive enough for such an undertaking. My hope was that we might be given some significant information about the operations of the A.S.M.E. and its committees, and perhaps about the professional activities of the leaders and protagonists of new management thinking and applications, but that materialized in but a few instances. The heart of the book constitutes a series of descriptions and analyses of Alford's major works, and though there is no question that this is a most worthy and valuable undertaking, the author would have produced a much superior work had he proceeded to analyze Alford's works and activities in a simple and more closely managed chronological pattern. In this way, the reader might better understand Alford's personal and professional development, and gain clearer insight into the trends in the recent history of industrial management. That this was not

done throughout the book is regrettable, for Dr. Jaffe does a creditable and well-detailed job of reporting on Alford's writings.

The author has an axe to grind, for he is presenting a candidate for high honors and he believes in his man. However, in trying to elevate the man, he tends to depreciate the work of others on occasion, and simply stretches the point too far. For example, Frederick W. Taylor turns up as a particular target for Jaffe's arrows, especially in connection with the 1912 A.S.M.E. report, "The Present State of the Art of Industrial Management," which, the author explains, Alford wrote. Now, whatever shortcomings Taylor had, and they were plentiful, he developed and generated a revolution in management, and this is a record he can, and could, stand on most securely. According to Jaffe's description, Alford had a great many reservations about Taylor and about scientific management, yet when the 1912 report is described in the book, it is not made clear that it constituted an unmistakable and pronounced approval of Taylor's scientific management. To be sure, the committee which was appointed to report was loaded with pro-Taylor people, but Jaffe insists that the report was Alford's handiwork; to this reviewer, it raised more questions than it answered.

The author is prone to give more credit to his subject than is justifiable, and therefore overlooks realities. For example, Jaffe claims that while "it is not possible to single out Alford's contribution" to the American Engineering Council's report, *Waste In Industry*, his influence in the report is "readily apparent . . . for here can be discovered the same message that runs through many of Alford's works." (P. 206.) The only trouble with the logic of that passage is that many of the men who taught Alford, and American industry, were on the committee, and wrote parts of the report. Among them were Morris L. Cooke, George D. Babcock, Harrington Emerson, Fred J. Miller, Sanford Thompson, and Robert B. Wolf — a virtual *Who's Who* of "modern industrial management" leaders. It is more likely that they influenced Alford far more than Alford could influence them.

Dr. Jaffe also, and mistakenly, maintains that the relationship between the Taylor Society people and the A.S.M.E. was marked by hostility from the very beginning of the Taylor Society's existence (pp. 112-115). He cites, as evidence, a pamphlet by Morris L. Cooke, dated 1917. By 1917, Cooke had good reason to despise the A.S.M.E. officers, who were greatly influenced by the utilities interests, and therefore not enamored of Cooke. However, the author apparently did not see in the Taylor Collection the minutes of the first meeting of the S.P.S.M. (renamed the Taylor Society later) in 1910, at which the same Morris Cooke moved that the new group act "in harmony with the aims and ideas" of the A.S.M.E., so that the latter organization would take no exception!

There is one area of some interest which was not covered in this work, and that relates to Alford's ideas about industrial relations, and trade unionism in particular, from 1919 on. In 1919, Alford reported on "The Status of Industrial Relations" to the A.S.M.E., in which he all but ignored the role of trade unions, except to mention the existence of strikes. Yet, he was at the time the editor-in-chief of *Industrial Management*, and it

was this periodical which, in November, 1919, editorially criticized employers for their refusal to grant collective bargaining rights to their employees. In 1934, despite Jaffe's contention that it is not easy to determine Alford's attitude toward Section 7(a) of the N.I.R.A., Alford opposed the provision on the grounds that it was "based on the theory that . . . industrial relations must be fixed by bargaining, not determined by facts." [Henry Laurence Gantt (New York, 1934), p. 252.] (Incidentally, his position was identical with that taken by Taylor many years earlier.) It may be that Alford did not write or approve of the 1919 editorial, and that no change in attitude took place; it still would be interesting to know what he had been thinking. It is unfortunate that we do not get much relating to Alford's conceptions of industrial relations in Jaffe's book, for if the author is relating his subject to the "evolution of modern industrial management," this area deserves some concentrated attention.

Whatever the shortcomings of the book may be, there is no question that the views we get of Alford's works, the activities of the American Engineering Council, and a great many of the activities of the A.S.M.E. are worth examining. It is to be hoped that Dr. Jaffe will do further work in delineating both Leon P. Alford and modern industrial management.

MILTON J. NADWORNKY

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*The Story of Advertising.* By James Playsted Wood. New York, The Ronald Press, 1958. Pp. viii + 512. \$6.50.

This book is well characterized by its title; it presents the story of advertising without attempting either extensive original research or intensive analysis. In the preface (p. v), the author states that the book attempts "to appraise critically some of advertising's characteristics, accomplishments, and shortcomings." Criticism of shortcomings is mainly limited to the more blatant exaggerations typical of such advertisements as those of nineteenth-century patent medicine manufacturers and freak show operators, however. The fact that much of Mr. Wood's professional background is in advertising work and the statement (p. v) that the volume ". . . is directed to advertisers, to advertising agencies, to the advertising media, to students of advertising as a commercial force . . ." may limit the strength of the book's critical appraisal, but does not lessen its generally competent and interesting descriptions.

Wood traces advertising through seventeenth- and eighteenth-century England with special reference to the influence of Addison and Steele in the *Spectator* and *Tatler*. In this he leans heavily on material in Henry Sampson's 1874 work, *History of Advertising from the Earliest Times*. In early American advertising he emphasizes the influence of advertising in Benjamin Franklin's publications. The section on nineteenth-century American advertising contains the principal original historical research of the book; Wood had access to the files of the *Springfield* (Mass.) *Repub-*

lican, and he illustrates the nature of advertising with numerous examples from that paper. By the late 1800's magazines were gaining in importance and becoming significant advertising media: among others Wood discusses Frank Munsey's magazine and Cyrus H. K. Curtis' *Ladies Home Journal* and *Saturday Evening Post*.

The book contains a substantial number of pictures of advertisements. Those of Pear's Soap, Sapolio, and the Lackawanna's Phoebe Snow are shown as popular around the turn of the century when such copywriters as Artemus Ward were at the peak of their influence.

After 1900 new products, such as automobiles, changed the subjects of advertisements; the World Wars evoked response from admen; the boom of the 1920's stimulated further growth; and radio and television appeared as new media. Meanwhile the agency had appeared and dominated most national advertising and some of the worst excesses of the advertisers were restricted by exposés of writers like Upton Sinclair, by the Food and Drug Act of 1906, and by various industry "codes."

Wood concludes with a discussion of the larger modern agencies and such newer tools of advertisers as motivation research. He shows an often uneasy mixture in agencies of scientific researchers and practical advertising men. On page 487 Wood states that research men "... depend on proved measurements and are painfully disconcerted when the use of a black patch over a man's eye to advertise a shirt leads to sensational advertising success."

In much of this book the reviewer was drawn to make comparisons with Frank Presbrey's *The History and Development of Advertising* (New York: Doubleday and Company, 1929). For material before World War I, Wood goes over most of the ground covered by Presbrey. Wood includes some material not in Presbrey — as well as much that is. Presbrey is much more thorough in early English advertisements, while Wood is at his best in American coverage. Because of research methodology, Wood does not supersede Presbrey as a standard source.

For economic historians the value of this book will be limited because of extensive and often uncritical reliance on secondary and tertiary sources, and because of highly uneven documentation on obscure points. Most of page 64 is occupied by a copy of an advertisement inserted by a man named Thomas Touchwood who purported to intend to shoot himself for public entertainment. In the text it is copied as an actual example of advertising; it is footnoted: "Quoted by Brooks, *op. cit.*, p. 110, who attributes it merely to a Boston paper of 1789 as copied from a late London paper. 'It was probably designed as a "take off" to some of the humbugs of the day.'" At times Wood inserts several pages of specific facts with no references shown, for example in discussing brands and trade-marks on pages 189-192. In chapters 12 and 13 he writes long passages about advertising pioneers supported only by one biography written by an associate of the subject. In other cases, notably the section on Albert B. Lasker in Chapter 19, very adequate documentation is used.

In discussing Claude C. Hopkins, a patent medicine advertisement copywriter, on page 289 Wood reveals both lack of research depth and careless analysis. He states that Hopkins "... devised the scheme of

selling six bottles for the price of five. . . ." This was supposedly around 1900. Actually the six for the price of five device was very common in patent medicine merchandising throughout the 1800's; one of the earliest uses of this form of quantity discount was that of Dr. Relfe's Botanical Drops in the *Columbian Centinel* (Boston) on January 3, 1824. Of Hopkins' patent medicine ads Wood makes this statement on line 7 of page 289 "Medicines, he knew, were worthless merchandise until a demand was created. The nostrums offered a real test to a man whose only determination was to sell and sell at a profit." On line 30 of the same page, however, Wood makes this statement which is totally contradictory: "At the same time Hopkins was doing the advertising for Liquozone, a patent medicine that he was convinced had saved the life of his young daughter."

Despite its imperfections and limitations, this book is generally worthwhile. It is readable and interesting informal history which is based on sources not found in most libraries. It is of sufficient value to be desirable for anyone who wishes to make a general survey of the history of advertising. This reviewer can only suggest that a revision in which the author would pay closer attention to details and improve on some points through further research would make this an outstanding work.

ROBERT A. LYNN

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*The North West Company.* By Mrs. Marjorie Elliott Campbell.  
New York, St. Martin's Press, 1957. Pp. 309. \$6.00.

There has been no substantial work on the general history of the North West Company since the publication of Gordon C. Davidson's *The North West Company* in 1918. Nonetheless, a considerable amount of research has been done on the Canadian fur trade and the fruits thereof published within the last four decades. It is Mrs. Campbell's intent to assemble these more recent accounts, supplemented by whatever new sources have come to light, and write (p. 285) a book "which attempts to tell the over-all story of the North West Company." Aware of the limitations imposed by the covers of a single volume; the author has painted her canvas in broad strokes. Her book is divided into four sections: a prologue setting the scene; part one concerning the career of Simon McTavish, 1779-1804; part two dealing with William McGillivray's directorship, 1804-1821; and an epilogue looking back and reflecting upon the company, its greatness, and its "tragic" demise.

For the most part, the book is popularly and well written. Some passages are very skillfully done: the descriptions of the explorations of MacKenzie, Fraser, and Thompson; the colorful scenes in the great hall at Fort William where the Montreal merchants and the wintering partners gathered to lay their plans; and the characterizations of McTavish and his nephew, McGillivray. Of the latter, Mrs. Campbell draws a fascinating picture (p. 42) when he first crossed the height of land beyond Grand

Portage and was initiated into the mysteries of the crossing. On his knees, his head and shoulders wet with the knightly tap of a soaked cedar bough, the young McGillivray "swore in French never to permit a new-comer to pass the Height of Land without a similar ceremony – and never to kiss a voyageur's wife without her permission."

The defects of Mrs. Campbell's book are, in the main, secondary. Dates upon which the historian hangs his hat are often lacking or buried in the text. Although there are four maps in all, none of them is sufficiently detailed to locate precisely a good many posts and portages that are cited in the narrative. Here and there, an error is seen. Sir Gordon Drummond (p. 220) was not the governor-general of Canada – an office not yet created – but the administrator; and there is no evidence to show that John Jacob Astor or his legislators induced Congress to pass the 1816 statute denying to British subjects an American fur-trading license (pp. 223–224).

Mrs. Campbell's treatment of the North West Company is quite partisan. In most comparisons with the Canadian company, the Hudson's Bay Company comes out second best. Examples, large and small, support this statement. William McGillivray's marriage "*en façon du nord*" with a woman of mixed blood is seen in a romantic light; George Simpson's marriage appears to be one of commercial convenience. In truth, both men recognized the commercial value in such alliances. The charterless Montrealers explored and assured to British sovereignty much of the Northwest; while the Hudson's Bay Company, though required by its charter to conduct explorations, did little or nothing. In truth, it was not the glory of Great Britain that prompted the magnificent voyaging of men like David Thompson – but the glory of the pound sterling. Unlike their rivals, the Nor'Westers had to explore, had to open up new beaver meadows, in order to survive. The philanthropic design behind Lord Selkirk's settlement is somewhat scorned; while its practical purpose, to serve the H.B.C. as a granary and as a personnel depot, is overlooked.

Mrs. Campbell's saga of the North West Company bears close resemblance to a Greek tragedy. It is from Aeschylus that she draws her text:

With our feathers, not by others' hands,  
Are we now smitten.

This is her thesis to explain the collapse of the Nor'Westers in 1821 and their subsequent merger with the H.B.C. "Had they remained united," asserts Mrs. Campbell (p. 273), "they might have won much better terms, if not complete victory." An internal division (among some wintering partners) did exist but it was not responsible for the final collapse of the company. No man knew the reasons for his company's defeat better than William McGillivray. His explanation (p. 275) was much closer to the truth than Mrs. Campbell's:

Thus the fur trade is forever lost to Canada! The treaty of Ghent destroyed the Southern trade; still the capital and exertion of a few individuals supported the Northern trade, under many disadvantages, against a Chartered Company,

who brought their goods to the Indian country at less than one half the Expenditure that ours cost us. . . .

ALVIN C. GLUEK, JR.

Michigan State University

*Then Came The Railroads.* By Ira G. Clark. Norman, Oklahoma, The University of Oklahoma Press, 1958. Pp. 336. \$5.75.

Railroads were not created in a vacuum. They were part of the whole social, political, economic and even intellectual background of American life. *Then Came The Railroads* is an attempt to integrate all the forces of human evolution with the history of railroads in the Southwest. In trying to do this Mr. Clark has used the southwestern railroads as a means to an end. And the end is neither clear nor completely justified. This book is little more than a general account of Southwest history using railroads as the vehicle whereby the story is staged. The history of all railroads is a narrative of the need to overcome some difficult geographic barriers. In the early chapters a rather vivid picture of the remoteness of most settlements clearly establishes the reason railroad construction posed a difficult problem. Unfortunately an adequate map is not included for these early sections of the book and the many place names are confusing in the extreme without a map. Since the first chapters set the scene for the rest of the story, this is a rather glaring oversight and continues to remain so as the reader is continually frustrated by the detailed accounts of what road ran from "here to there."

The complexity of railroad history always presents a challenge to the ingenuity of the writer. *Then Came The Railroads* promises more in its title than appears in the 336 pages (index included). The involved chronology needs a theme — some central point to focus on — to hold the reader's interest. Many chapters are a generalized repetition of segments of western development so often told they are rather shopworn. However, Mr. Clark does one very valuable service: His book is an excellent chronological reference complete with detailed citations concerning railroads in the Southwest. This fact alone is a real contribution to the researcher who becomes involved with railroad history. For this reason it earns a place in western history literature as a ready reference for a good percentage of the material on Southwest railroad growth.

In an attempt to tell the *whole* story of southwestern railroading from beginning to present, the cataloguing of place, events, and men makes rather difficult (and often dull) reading. The early railroad schemes might better have been condensed and only the most important mentioned. A family tree diagram of the early project would be very useful and make unnecessary much of the endless tracing of railroad origins. By trying to undertake a *complete* history the author seems compelled to trace every detail — some already well known — in the long evolution of Southwest railroading. This makes for choppy, disjointed chapter arrangement with no pattern of organization. For instance, in the chapter on financial aid



to early projects (Chapter 5, "Attractions and Reward") the extremely involved history of government land grants is reviewed but there is nothing new that is not already covered in other works. State and local aid is only briefly mentioned. There is no adequate discussion of the early private financial ventures.

Paragraphing could be given more careful thought and thereby improve the readability. There is no need for a nineteen-word paragraph such as is found at the bottom of page 46. Yet this type of criticism is rather minor and does not destroy the effectiveness of several things which have been done and done well. The book is excellently documented with a detailed bibliography of railroad history. Better arrangement could have made the bibliography somewhat more useable. It is also regrettable that the author did not include reference to materials in the National Archives. The Archives has a whole wealth of untouched materials concerning western railroad affairs. Also the collection of maps showing the evolution of railroad growth is hardly adequate for the serious reader. A large detailed map showing stages of growth of the main lines and place names would improve the reader's understanding.

The social, political, and economic effects of railroad construction in the early West have always been of interest to the historians. *Then Came The Railroads* recognizes the contributions railways made to southwestern expansion. But this theme is developed only in part and is presented as a justification of the railroad's place in the community. An analysis of the contribution made by individual railroads to western growth (i.e., the land grant program of the Burlington as told by R. C. Overton in *Burlington West*) would have been of more value to the historian although it would probably be of limited interest to the general reader and railroad fan. The difficulty in integrating community problems with the railroad story is obvious. This is a hard task indeed when it is realized that this work is a narrative of all railroads in the Southwest. Actually the subject is too large to cover in more than general fashion in the limits of a little more than 300 pages. The book might have been improved if it had been limited to one segment of Southwest railroads. For instance, the story of cattle raising and the railroad (pages 102-105) is a fairly typical example of a subject treated in generalization that could be found in any text on the West. The railroad is an integrated part of the community but it is not the *whole* history of the West.

In summary the following points seem worth repeating. *Then Came The Railroads* makes a handy reference book of Southwest railroad facts. It should be of special interest to the non-professional reader. Mr. Clark follows the pattern of a great many scholars of the West by presenting an endless parade of facts and human interest stories. This makes the narrative hard to follow and disjointed. The Southwest railroads merely become a backdrop for another western history. Some single theme might have rescued the reader's attention from the endless monotony of these factual compilations.

RALPH N. TRAXLER, JR.

Emory University

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*Planters and Businessmen: The Guignard Family of South Carolina, 1795-1930.* Edited by Arney R. Childs. Columbia, South Carolina, University of South Carolina Press, 1957. Pp. xii + 148. \$5.00.

This little volume is the sixth publication of the South Caroliniana Society and Library in the South Caroliniana series, which is composed of selections from papers on deposit with that organization. Each of these volumes has been compiled by a distinguished editor whose labors have added greatly to the value and interest of the works. The letters, reprinted from the Guignard family papers of upwards of 3,000 items, are edited by Dean Arney R. Childs with her usual meticulous attention to detail and high quality footnotes and addenda. Her genealogical comments and the appendix chart showing five generations of the family make it possible for the reader to follow the threads of family activity with ease throughout the entire span of years from 1795 to 1930. The selections from each generation's record are introduced by summary paragraphs, brief descriptions of the personalities concerned, and an analysis of the significant activities of the family of the period. Each such introductory note also tells much of the manuscripts in the period which were NOT included for publication.

The material presented in these pages is of undoubted value to the student of various phases of local and state history of the Palmetto state. Its leading figures were men of considerable substance in central and up-country Carolina. They owned city residences in Columbia and had much to do with the early development of that capital city. There is mention of as many as five different "plantations" in the ante-bellum period also. Their extensive land holdings, the variety of their mercantile and entrepreneurial activities, their not inconsiderable public offices and responsibilities would seem to justify the duality of the title of the volume.

Many specialists in southern history, however, will question whether any members of the family really qualify as "planters" in the generally accepted use of that term. This appellation was a mark of distinction in the ante-bellum south. It implied a distinguished family tree, social and political leadership, and considerable wealth in land, chattels, and staple crops. While no two students of the problem will agree as to where lay the dividing line between FARMER and PLANTER, nearly all writers have heretofore agreed that a deep attachment to the soil and economic dependence on staple crops such as tobacco, rice, cotton, or sugar were necessary attributes of him who could be called planter. Some writers have followed a rule of thumb which denies the title of planter to any operator who could not consistently field a work force of twenty or more slaves. To be true, many planters invested heavily in lands for speculation and some even dabbled in banks and other forms of "invisible paper property," but their major economic activity was always the production of a maximum crop of staples, with considerable slave labor, with the help of a credit, price, and marketing system which held them prisoners. Some members of the Guignard family owned as many as thirty slaves and pro-

duced as much as twenty bales of cotton per year. But here again it is interesting to note that the slave force of all three ante-bellum generations contained considerable numbers of Negroes who were skilled artisans. These valuable properties were continually being hired out to neighbors and even urban contractors for bricklaying, carpentering, etc., on both public and private construction projects. The letters are full of references as to the current activities of many of these highly skilled operatives.

While it may be possible to debate the justification of the title of planter for most members of this fascinating family, such is not the case when they are referred to as businessmen. Throughout all five generations there runs a vigorous entrepreneurial strain. The catalogue of activities is intriguing. It includes surveying, land speculation (in city and backwoods), lumber and lumber mills, brickyards and construction contracts, mail contracts, river ferries, small loans, and the development of hydroelectric power in the twentieth century. True, the capital and proceeds of their operations were not large, but the persistence, vision, and energy of some members in each business generation is always apparent.

The public service record of the family is not distinguished but is worth recording. Commencing in 1795 John Gabriel Guignard served as first Treasurer of the Upper Division when South Carolina's governmental administration was divided between the coast and up-country. He later became Surveyor-General for the entire state, thus pioneering in an activity pursued by several successive generations of combining public service as surveyor or register of land deeds with opportunity to locate desirable land for purchase. Another generation produced a medical doctor who tried to be a planter also, a county trial justice, and a state legislator for one term. Various members of the family served as officers and developers of the Episcopal Church up-state, while others attended and supported religious camp meetings of the type usually catering to yeomen farmers and frontiersmen. Throughout the entire correspondence there is evidence of remarkable family solidarity and pride. Although this trait was a hallmark of the planter aristocracy, this reviewer does not believe that the editor has established the main thesis of her introductory comments, viz: "that this family history refutes the notion sometimes advanced that business and the professions were outside of the social pale in the days of the Southern planter aristocracy." The editor, however, should be complimented once again for her remarkable editorial competence in the highest standards of historical scholarship.

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*The French Book Trade in the Ancien Regime: 1500-1791.* By David D. Pottinger. Cambridge, Harvard University Press, 1958. Pp. 358. \$7.50.

Not a few governments have entertained the illusion that they could effectively control the economic process by elaborate and minute regula-

tion. Thus, in the period covered by the work under review, namely 1500 to 1791, the French government evolved mercantilistic policies which resulted in a cumbersome and ultimately unworkable network of laws, rules and regulations. Those dealing with the book trade were typical. In scholarly manner, David T. Pottinger demonstrates that while government proposes, the citizen, in workaday fashion, disposes. Law after law and regulation after regulation followed in abundant fashion in attempts to shore up the whole unwieldy structure. Thumbing their noses at the framers of policy and the "Very Important Persons" of their day, the regulated frequently scoffed at the regulators. With the advent of the French Revolution, the whole massive but essentially weak edifice crumbled to pieces.

In expert fashion, Pottinger delves into the innermost depths of the French book trade during the Ancien Regime and turns up rich deposits of value to the economic, social, and political historian. In leisurely succession, examination is made of the economic status of the proud master printers and dealers and of the humbler but no less irrepressible journey-men printers and apprentices. In lesser detail, the author also discusses papermakers, illustrators, and binders of the period. He sketches the way of life of the various occupational groups, their social psychology, their relationship with one another and with the government, their differences of outlook and interest, and their institutional expressions of joy and sorrow. The reader emerges with a picture of "a highly intelligent group of men communicating their thought to their own time and to the future through the instrumentality of a no less interested group preoccupied with the technicalities of organization, management, selling, printing, binding, engraving, and paper-making. Fumbling and experimenting at first, they end by being the effective makers and carriers of the ark of civilization." (Pp. VI-VII.) From a relatively minor business in 1500 to a fairly complex and highly regarded venture in 1791, the French book trade developed in slow but steady fashion despite obstacles by no means small in extent.

In Paris as well as elsewhere, the author as such was not treated with the respect he deserved. Except for a relatively few better known authors of the period, the average author in the Ancien Regime could not depend on writing alone to earn a livelihood. Writing was, therefore, in the nature of a sideline activity to another profession. Moreover, vis-à-vis the publisher, the author was in a distinctly inferior position, and was frequently treated by him in condescending manner.

Especially valuable are the chapters dealing with the guild system. The guild was used as an instrumentality by means of which the government extended to the book trade its policy of controlling industry. The basic concept was one of rigid monopolistic control administered by a small body of elected officers. The realm of control extended to quite minute items of technical and social activity. The system required a strong, absolute central government. With the growth of capitalism and the spread of democratic government, it was doomed to extinction. Nevertheless, in its emphasis on quality in the publishing and printing fields and the necessity for high standards of workmanship, in its stress on the main-

tenance of proper ethical relationships between occupational groups, and in the devotion of guild officials to the best interests of the trade, the guild system had meritorious features.

The heavy hand of censorship was manifest throughout the Ancien Regime. The guild system was also used as a means of enforcing government censorship of publications in the interest of preserving proper religious and political orthodoxy on the part of the citizenry. The extraordinary lengths to which government went in exercising censorship are elaborated in interesting detail in the chapter on censorship. Attempts at evasion of these stifling regulations on the part of authors, printers, and dealers were understandably not uncommon in the three centuries preceding the French Revolution.

The volume is copiously annotated. It furnishes ample evidence of the immense amount of research required for a work of this nature. One cannot do justice, in a brief review, to the wide scope and the rich detail of a study of inherent interest to a wide reading public. It should be of value not only to the economic historian but to the practitioners of other scholarly disciplines.

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*Adventures in Small Business: 119 Success Stories of Ideas, Products and Inventions that Have Been Developed into Profit-Making Businesses.* By the Editors of *Fortune*. New York, McGraw-Hill Book Co., Inc. [1957]. Pp. xi + 273. \$3.75.

This volume consists of reprints of some of *Fortune's* reports on small business successes. It is a sequel to a similar volume of reprints published in 1954 under the title, *100 Stories of Business Success*. Since these cases are selected for dramatic success, they are not intended to be representative of typical small business. Perhaps, however, the fresh approach of this dynamic group of small enterprisers serves to point up the general value, to the economy, of free entry for small business through which minor but critical innovations may be introduced. A survey of this sort provides some counter to the impression we get from examining the subordination of small business, its role as "mere," non-innovating supplier, or distributor, for the large dominant corporation, so frequently illustrated by the statistically numerous independent gasoline service station proprietors.

These stories are written in a light conversational style, designed to convey the feeling that these optimistic entrepreneurs have, themselves, given much of the material first hand to a reporter, and that the coverage is that which they thought important. The chief characteristic of these business organizers appears to be boundless drive and faith in themselves. Thus: "The profits they anticipate warm their hearts." (P. 34.) "By 1960 we'll be first." (P. 157.) They are not troubled by false modesty. There is the shipbuilder who did his own estimating and "rarely made a

mistake" (p. 200), and the contractor who "never doubted at all I'd make a success of this," and hopes "someday to be the nation's No. 1 builder." (P. 139.) They reach beyond the pedestrian. The volume concludes with the account of the firm whose charter expressly states that it was organized "primarily to work on interplanetary travel." (P. 272.)

What sort of experience and background did these men bring to their ventures? Some had previously been in government service or in universities. A few came directly from school or college, or from service in the armed forces. Some had earlier experience in firms of their own. A good number had served in well-known corporations in responsible jobs as salesmen, production managers, general managers and vice presidents. I do not recall any mention of earlier service by these entrepreneurs as "management trainees" in large firms. Perhaps we have here a type of non-conformist, or creative eccentric, which *Fortune* could depict as contrasting with the maligned "organization man."

These examples make clear a continuity in the growth of industry as each firm starts from the achievements or inadequacies of earlier ventures. The opening story deals with a man who purchased a going concern and merely increased the advertising outlay and sales effort. Previous owners, and earlier partners who withdrew, are given short shrift. There is no evidence that *Fortune's* reporters talked with either of these, or with anyone other than the present successful owner. Yet the economist or historian, looking at the whole picture, is impressed by the degree to which success, as defined in this volume, involved making some critical change in producing a known product, or in serving an established clientele.

An economist, examining this collection brought together in book form, may be distressed by the looseness of framework; the lack of structure in the stories. There is a flexible implicit definition of small business. Several firms attained gross sales of from \$35 to \$40 million. Several started with sales of a half million and over, and some with capital of \$100,000 or more. Characteristically, however, initial sales were several thousand dollars at most, and starting capital was in the hundreds or thousands. An explicit goal of the authors was to confine the study to those firms or business ventures which continued as independent enterprises. The significant innovations effected through small ventures that are absorbed by large firms is thus expressly excluded from this account.

The descriptions are unequal in several respects. Some depict the conduct of an enterprise as a one-shot affair, plummeted to success by a single original idea; others describe a continuous coping with changing conditions. The problems of internal management and personnel get little attention, except for those occasions when strikes cut sales and profits. In one firm the labor force varies over the year from 300 to 850. I was delighted that this unresolved management challenge was reported as a fact, but it was glossed over by brighter comments on managerial ingenuity. Rarely are a firm's sales shown in relation to its market (a few cases, e.g., pp. 39, 158, 172, 184, 208). This is a service *Fortune* generally provides in its studies of the large firm. Rarely are profits shown as a return on equity or investment (a few cases, e.g., pp. 200, 203); generally only as a per cent of gross which, in my spot check, ranged from 1.3

per cent (p. 38) to 25 per cent (p. 31). Firms that have not paid dividends are still classed as worthy of inclusion in this list of "success stories" (p. 167 and *passim*).

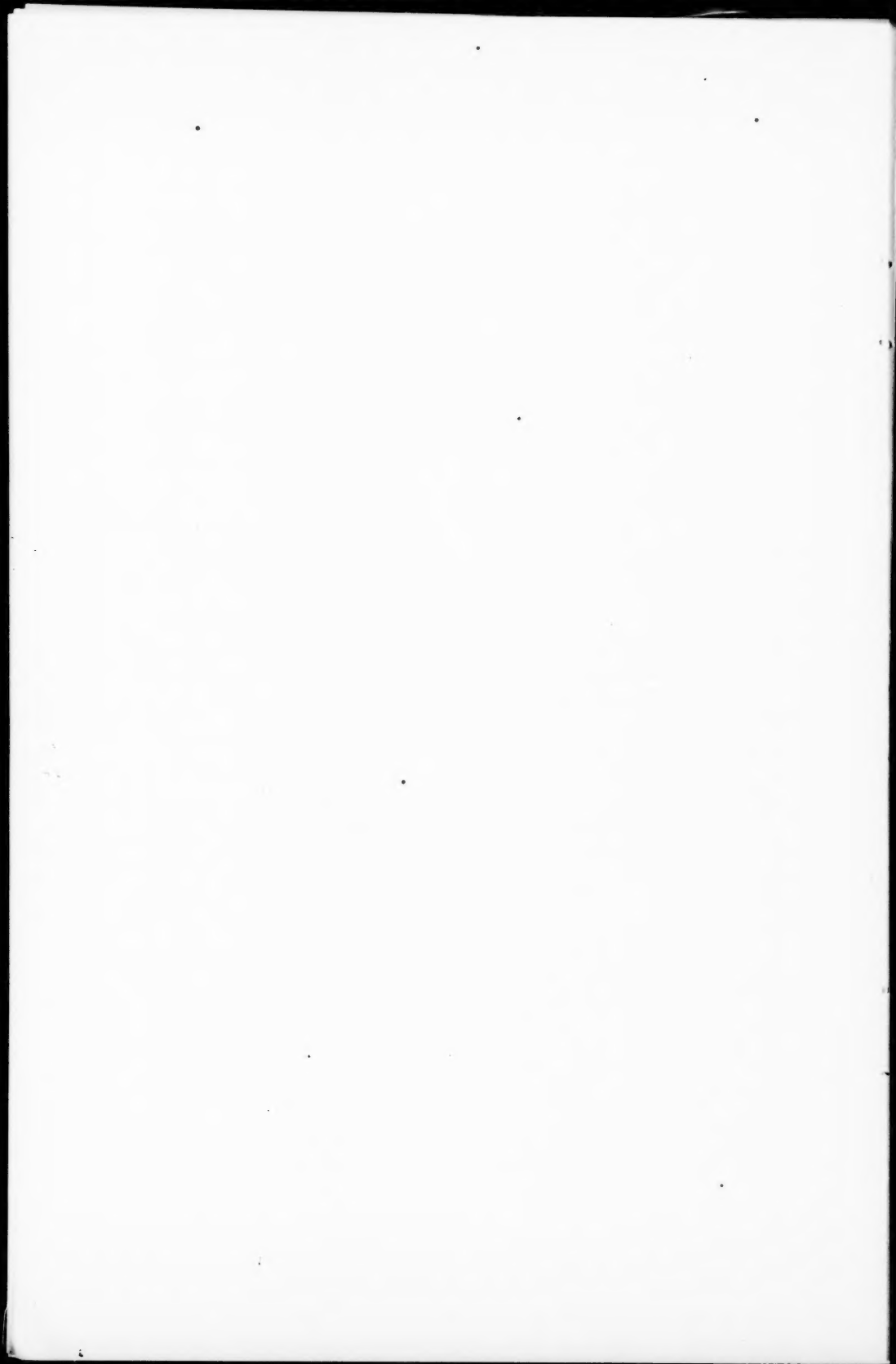
The book provides a wide selection of concrete cases revealing small business management. Its usefulness as a quotable source is reduced by the absence of documentation and by the anonymity of the authorship. If, however, the *Fortune* editors, in the tradition of good reporting, have in fact let these entrepreneurs tell their own stories, we must acknowledge this service of the journalist and judge the volume in that light. Perhaps the divergence in the management maxims passed down from on high may challenge the analyst to compare and resolve differences. One successful maker of hobbyists' models reports a desire "to make our company a model, built to the scale and detail of a big corporation" (p. 50); others know success is due to their own personal touch, as could never be the case in a big corporation. Thus we have the strictly do-it-yourself man: "He makes all the decisions on the spot, as the need arises. He is treasurer as well as president. He has no budget" (p. 155).

Although these accounts of small, successful business ventures are rarely critical or searching, they do provide fascinating reading, and for the scholar they provide a helpful offset to our colleagues' more penetrating analyses.

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